"Managing and conserving Arizona's natural, cultural and recreational resources"

Arizona State Parks

NOTICE OF PUBLIC MEETING of THE ARIZONA OUTDOOR RECREATION COORDINATING COMMISSION (AORCC) of THE ARIZONA STATE PARKS BOARD

Arizona State Parks
1300 W. Washington
Phoenix, AZ 85007

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AZStateParks.com

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General Fax:
602.542.4180

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602.542.4188

Notice is hereby given to members of the Arizona Outdoor Recreation Coordinating Commission (AORCC) and the general public that the Commission will hold a meeting open to the public on **Monday, August 15, 2011, at 1:00 p.m. at Arizona State Parks, in the Board Room located in the basement of 1300 W. Washington, Phoenix, Arizona,** pursuant to A.R.S. § 41-511.05 and A.R.S. § 41-511.25.

The AORCC may go into Executive Session for any agendized item at any time during the meeting to discuss or consult with its legal counsel for legal advice on matters listed on this agenda pursuant to A.R.S. § 38-431.03 et seq. Items on the Agenda may be discussed out of order, unless they have been specifically noted to be set for a time certain. Public comment will be taken.

AMENDED AGENDA

(The Chair reserves the right to set the order of the agenda)

A. CALL TO ORDER AND ROLL CALL

B. INTRODUCTION OF MEMBERS AND STAFF

C. ELECTION OF OFFICERS

D. REPORTS – Commission and staff reports may be written or verbal.

1. **Presentation on Status of State Parks Budgets for 2011-2012 and 2012-2013.** Staff will update AORCC regarding the budgets for State Parks and allow AORCC members to ask questions.
2. **Parks Board Actions on AORCC Items.**
3. **Legislative Update**
4. **Commission on Privatization and Efficiency (COPE) Update**
5. **The State of Arizona State Parks**

E. ACTION ITEMS

1. **Approval of Minutes from the July 27, 2010 Meeting.**

2. **Consider Approving the Law Enforcement and Boating Safety Fund (LEBSF) FY 2012 Distribution.** Staff will ask AORCC to forward a recommendation to the State Parks Board for action at their September 14, 2011 meeting. Staff recommends for FY 2012 approving the LEBSF distribution of $750,000 to Mohave, LaPaz and Yuma Counties.

3. **Consider Letter of Support for Fully Funding State side Land and Water Conservation Fund.** Staff will ask AORCC to endorse a letter to the Secretary of the Interior Ken Salazar, opposing the redirection of the State side Land and Water Conservation Funds (LWCF) for the funding of the America's Great Outdoors Initiative (AGO).

F. CALL TO THE PUBLIC - Consideration and discussion of comments and complaints from the public. Those wishing to address the Board must register at the door and be recognized by the Chair. It is probably that each presentation will be limited to one person per organization. Action taken as a result of public comment will be limited to directing staff to study or reschedule the matter for further consideration at a later time.

G. SUMMARY OF CURRENT EVENTS, MATTERS OF BOARD PROCEDURE REQUESTS AND ITEMS FOR FUTURE AGENDA

H. ADJOURNMENT

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Pursuant to Title II of the Americans with Disabilities Act (ADA), Arizona State Parks does not discriminate on the basis of a disability regarding admission to public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the acting ADA Coordinator, Nicole Armstrong-Best (602) 542-7152; or TTY (602) 542-4174. Requests should be made as early as possible to allow time to arrange the accommodation.

Jay C. Ziemann

Jay Ziemann, Assistant Director
Partnerships Division, Arizona State Parks

Posted at: Arizona State Parks
1300 W. Washington
Phoenix, Arizona
1st Floor

Arizona State Parks Board
June 22, 2011

Arizona State Parks

AZStateParks.com

Executive Director E.1.

STATE OF
ARIZONA STATE PARKS

FY 2008 – What We Had

- 29 State Parks Open and Operated by ASP
- 2.5 million visitors
- 328 Full-time filled positions in March 2008
- Grant Programs: LEBSF, Federal Grants Heritage Fund, SLIF, Off-Highway Vehicle Fund, Land Conservation Fund $42.0 M*
- State Parks Operating Budget $26.3 M
  - General Fund $7.7 M
  - Enhancement (Gate Fees) $9.2 M
- State Parks Capital $8.6 M

Total Revenue $76.9 M

FY 2012 – Where We Are

- 27 State Parks OPEN: 19 agreements, 6 operated by other entities; 4 operating on reduced schedules
- 2.2 million visitors
- 205 Full-time filled positions
- Grant Programs: LEBSF, Federal Grants

    Off-Highway Vehicle Recreation Fund $ 5.5 M
- State Parks Operating Budget $ 19.4 M
    - General Fund $ 0 M
    - Enhancement (Gate Fees) $10.0 M
- State Parks Capital $ 0

Total Revenue $ 24.9 M

FY 2012 - What is Missing

- $56.5 M annually in operating, capital, grants
- Statewide planning, environmental education, robust research and marketing
- Capital and maintenance funding
- Park Rangers at every State Park
- Grant programs including the Heritage Fund
- Operating most State Historic Parks
- Staffing depth

What We Gained

New, more meaningful partnerships

- Financial

  2008 - $0   2012 - $600,000
- Operating / Management
- In Kind
- Marketing
- Fund Raising
- Tribes, Federal Government, State Agencies, Counties, Cities, Towns, Nonprofit organizations, For-profit organizations

City and Town Partners

- Apache Junction
- Camp Verde
- Cottonwood
- Flagstaff
- Florence
- Payson
- Safford
- Sedona
- Star Valley
- Thatcher
- Tombstone
- Wickenberg
- Winslow
- Yuma

County Partners

- Apache County
- Graham County
- La Paz County
- Santa Cruz County
- Yavapai County

State Agency Partners

- Arizona Department of Corrections
- Arizona Game and Fish Department
- Arizona Department of Transportation – *Arizona Highways*
- Arizona Historical Society
- Arizona Lottery
- Arizona Department of Public Safety
- Arizona Office of Tourism
- Arizona State Land Department

Government Agency Partners

Federal Partners

- Bureau of Land Management
- National Park Service
- U.S. Forest Service

Tribal Partners

- Hopi Tribal Council

Organization & Friends Partners

- Arizona Archaeological Society
- Arizona State Parks Foundation
- Benefactors of Red Rock SP
- Friends of Tonto Natural Bridge SP
- Friends of Oracle SP
- Friends of Verde River
- Arizona Heritage Alliance
- Hold the Fort – Fort Verde SP
- Lake Havasu Marine Association
- The Nature Conservancy
- Riordan Action Network
- Sierra Club
- Tombstone Chamber of Commerce
- Tubac Historical Society

Fundraisers & Private Partners

- AAA Arizona
- Arizona State Parks Foundation
- Arizona Highways
- Bashas' Family of Stores
- Dasani
- Odwalla
- Sprouts Farmers Market
- Superstition Harley-Davidson
- Geico

New Growth

- On-line Tour and Camping Reservation System
- Innovative Advertising - Social Media
- Upgraded campgrounds at Lost Dutchman and Patagonia State Parks
- Stabilized Jerome, Tonto and McFarland State Historic Parks and Re-opened
- Working with Private Partners to Enhance Amenities and Services

Target

- Identify & Cultivate State Park Champions
- Coalesce around a strategy for sustainable funding
- Enhance services through concessions
- Diversify / broaden visitor base
- Attendance, Revenue and Operating Efficiencies

GOAL

Need sustainable and sufficient funding for agency

Vision: Arizona State Parks is indispensable to the economies, communities, and environments of Arizona.

Mission:
Managing and conserving Arizona's natural, cultural and recreational resources for the benefit of the people, both in our Parks and through our Partners.

Budget Presentation

FY 2012 Operating Budget & Assumptions

Budget Goal - FY 2012

GOAL:

Keep Operating Budgets Flat

Definitions of Budget Terms

Appropriation - Legislative authorization to expend monies for a specific purpose.

Non-Appropriated Funds - The Board's authority to expend non-appropriated funds is contained in Arizona Revised Statutes.

Fund Offset - An authority designation by the Legislature to use a replacement funding source, typically to replace General Fund monies

Excess Balance Transfer (EBT) - A "Sweep" or a draw from a fund's cash balance to the State's General Fund.

Fund Reduction and Transfer (FRAT) - A reduction of expenditure authority, and in the case of revenue generating funds- with a corresponding cash transfer to the State's General Fund.

Backfill – A legislatively approved mechanism that allows transfer of cash from one ASP fund to another ASP fund in order to comply with a legislated transfer or reduction. Requires State Comptroller & Legislative Approvals.

Appropriated Funds

Enhancement Fund (Gate Fees)

Law Enforcement and Boating Safety Fund (LEBSF)

Reservation Surcharge Fund

Appropriated Funds (Voter Protected)

Land Conservation Fund (Growing Smarter)

- FY 2011 was the final year of the $20 million appropriation

- Current balance is $81 M

Non-Appropriated Funds (Special Funds)

- Arizona Trail Fund (last funded in 2009)
- Heritage Fund (eliminated after June 30, 2011)
- Investment Interest
- Off-Highway Vehicle Recreation Fund
- Partnerships Fund
- Publications Fund
- State Parks Donations Fund
- State Lake Improvement Fund

Federal Funds

Federal Recreational Trails Fund

Federal Historic Preservation Fund

Federal Land and Water Conservation Fund

Other Federal Agreements

Operating Divisions

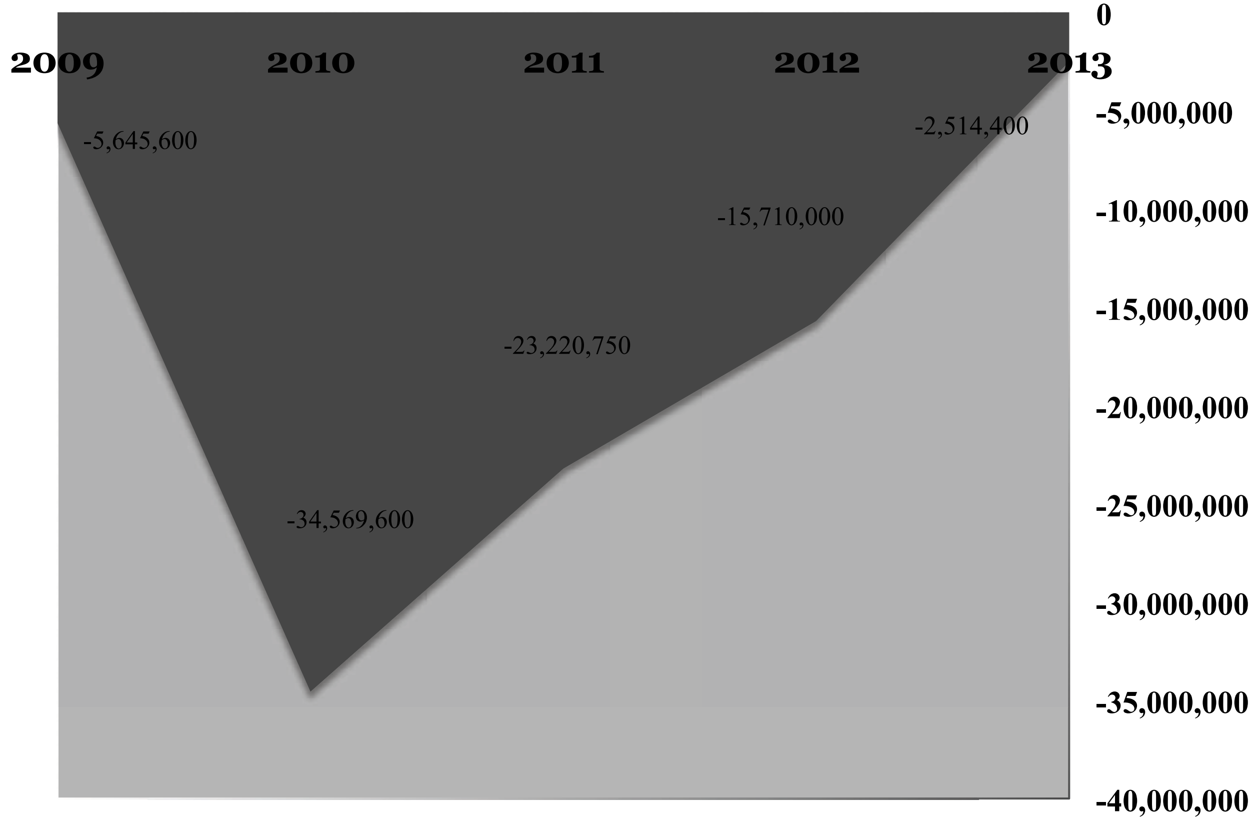
Parks Division

Partnership Division

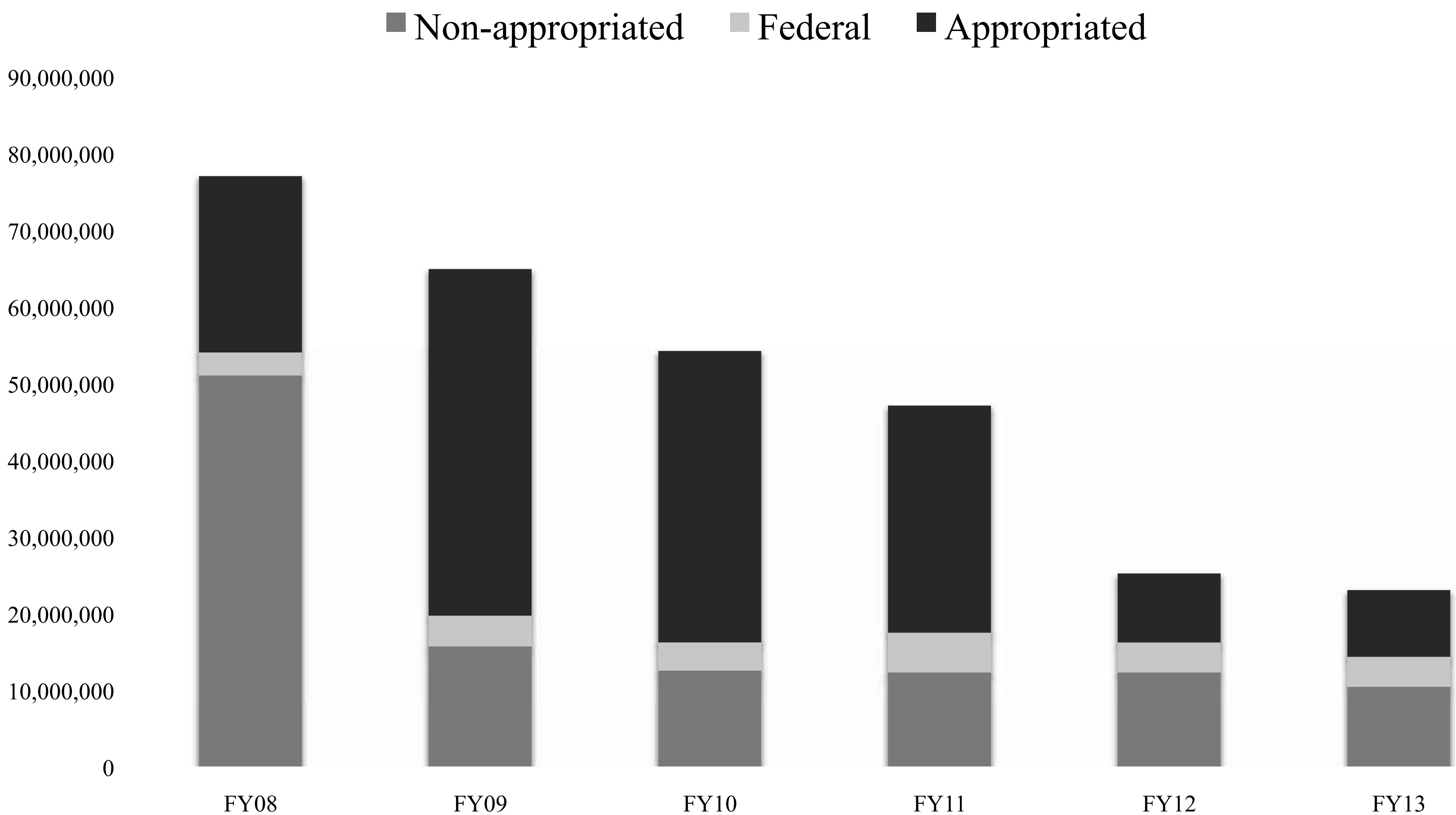
Administrative Support

FY 2009 - FY 2013 Legislative Sweeps

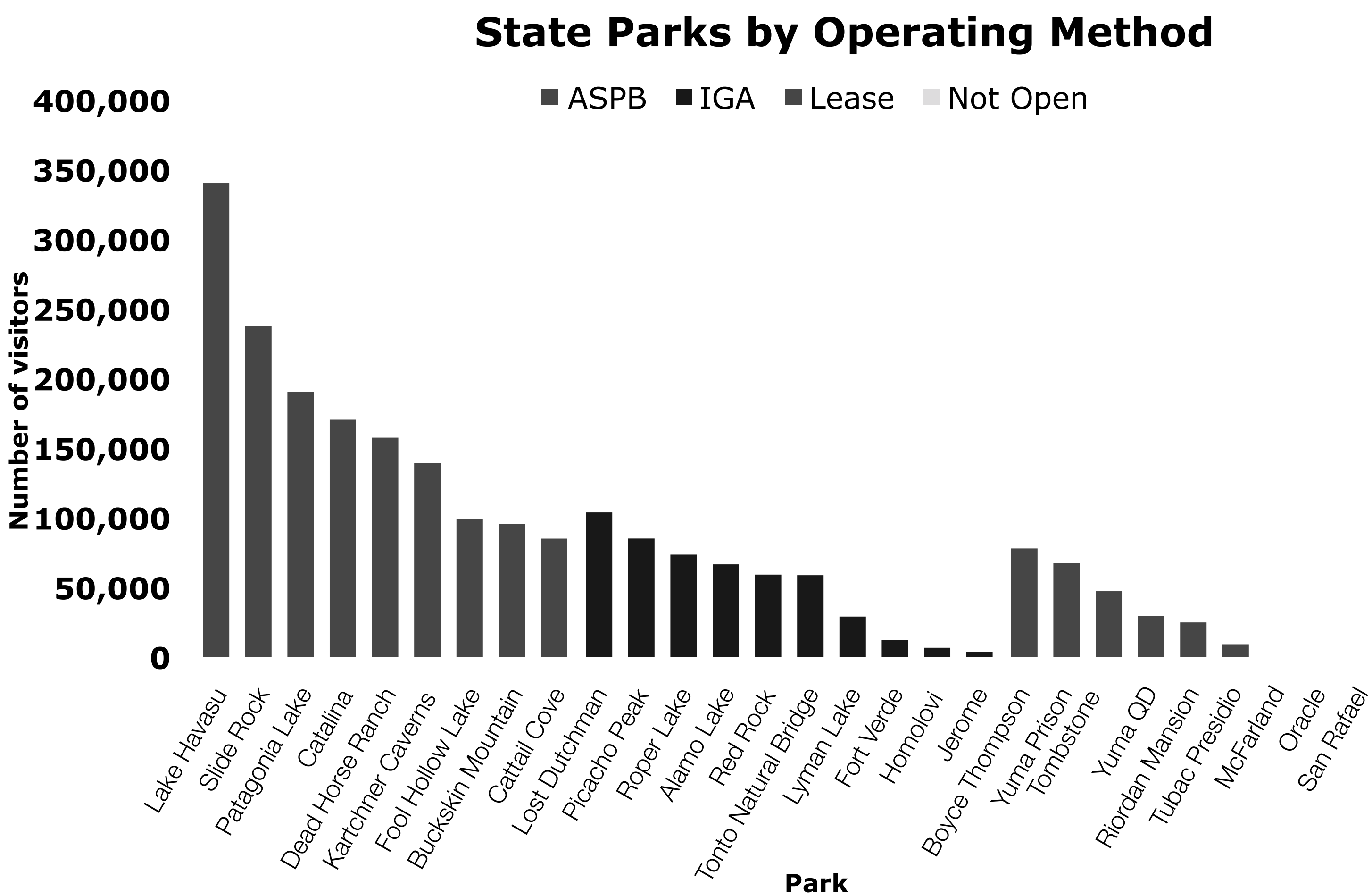
TOTAL OF FIVE YEARS OF SWEEPS $81,660,350



Agency Revenue Comparisons
FY 2008 Through FY 2013



FY 2010 Annual Visitation and Current Operating Status (As of May 31, 2011)



Revenue Forecast

Enhancement Fund (Revenues & Attendance)

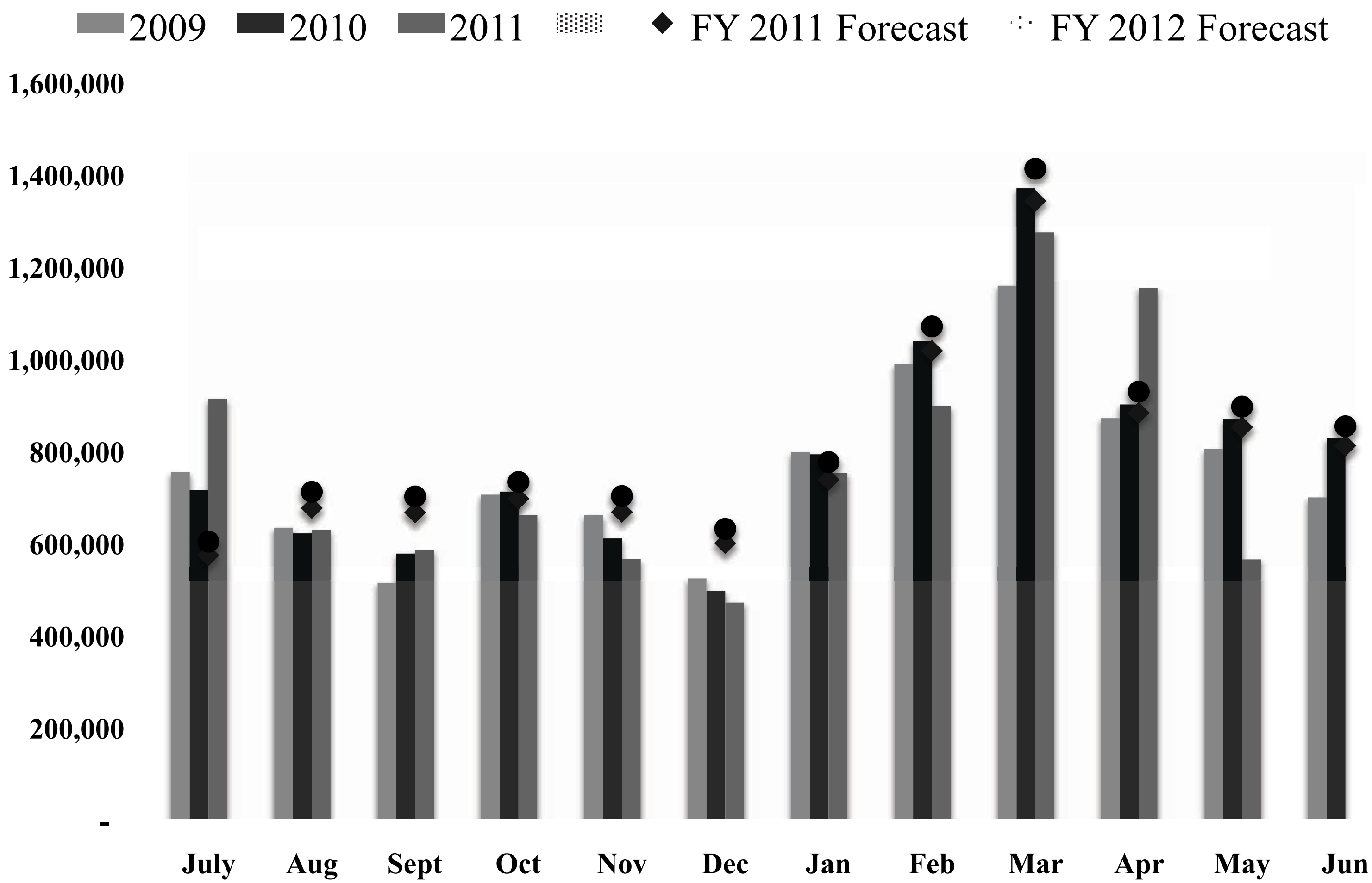
State Lake Improvement Fund

Off-Highway Vehicle Recreation Fund

All Funds-Interest Earnings

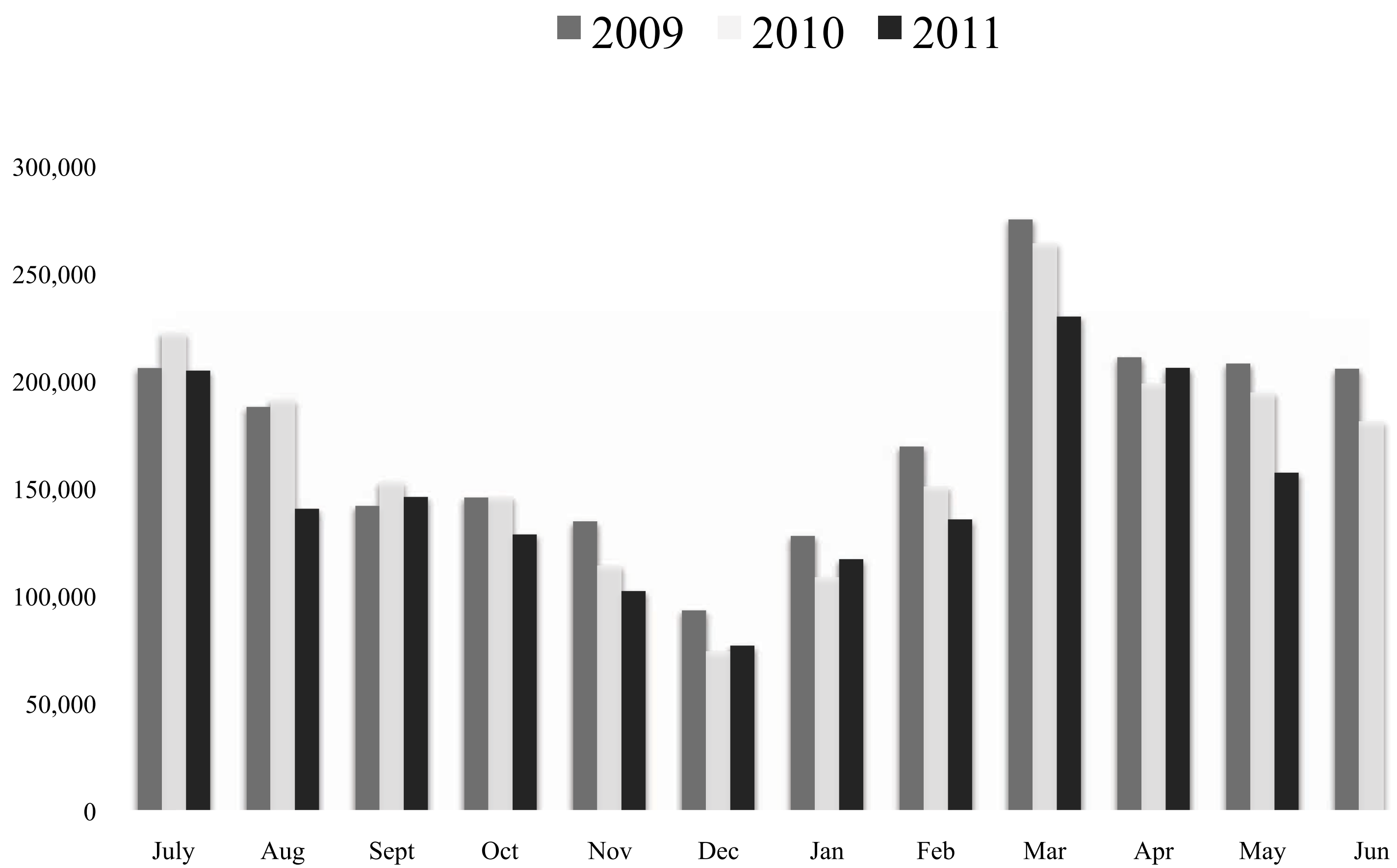
Law Enforcement Boating Safety Fund

Enhancement Fund
FY 2009 - FY 2011 *Revenue*



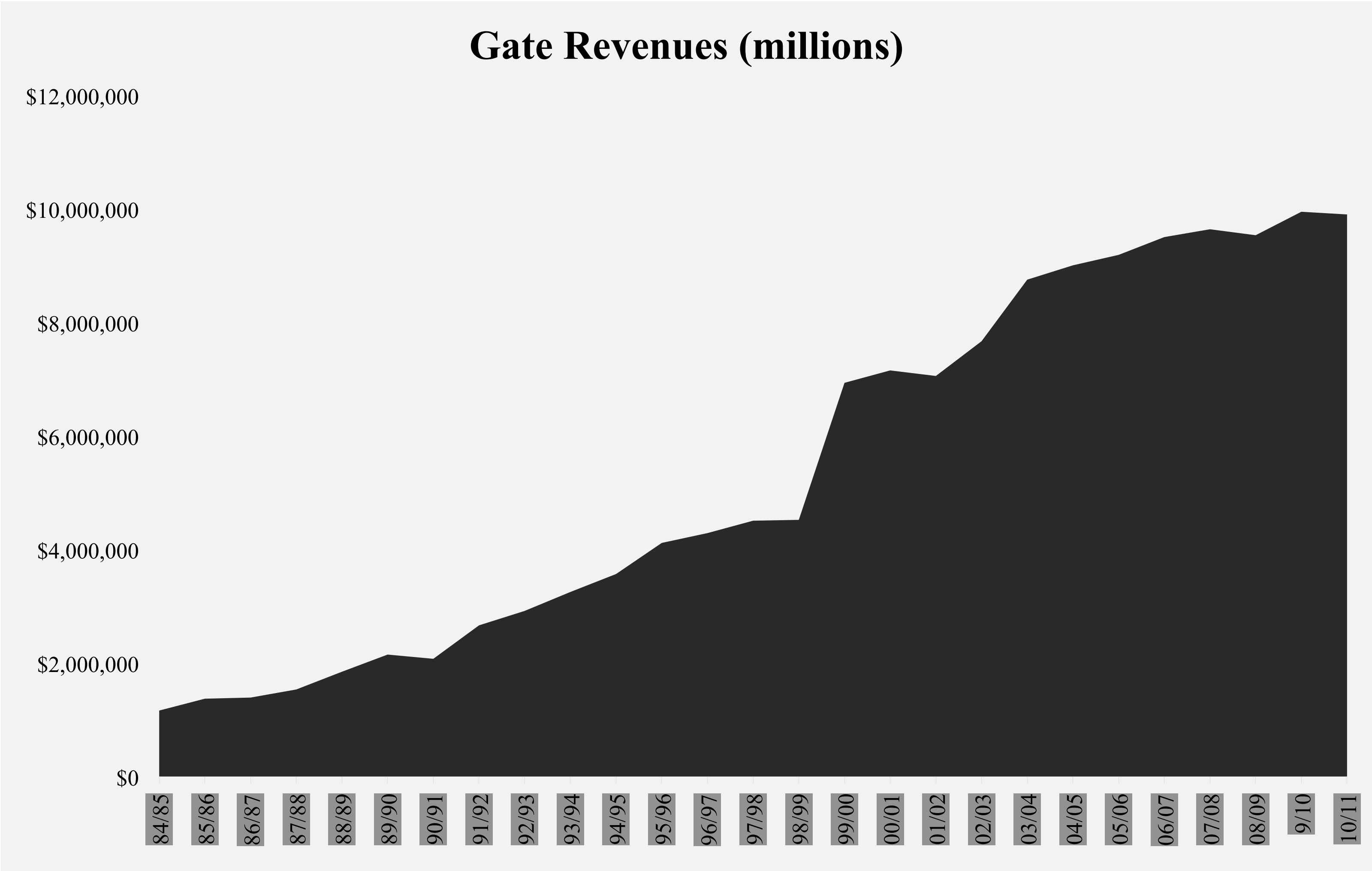
(FY 2011 and FY 2012 are same revenue forecast)

FY 2009 – FY 2011 - *Attendance*

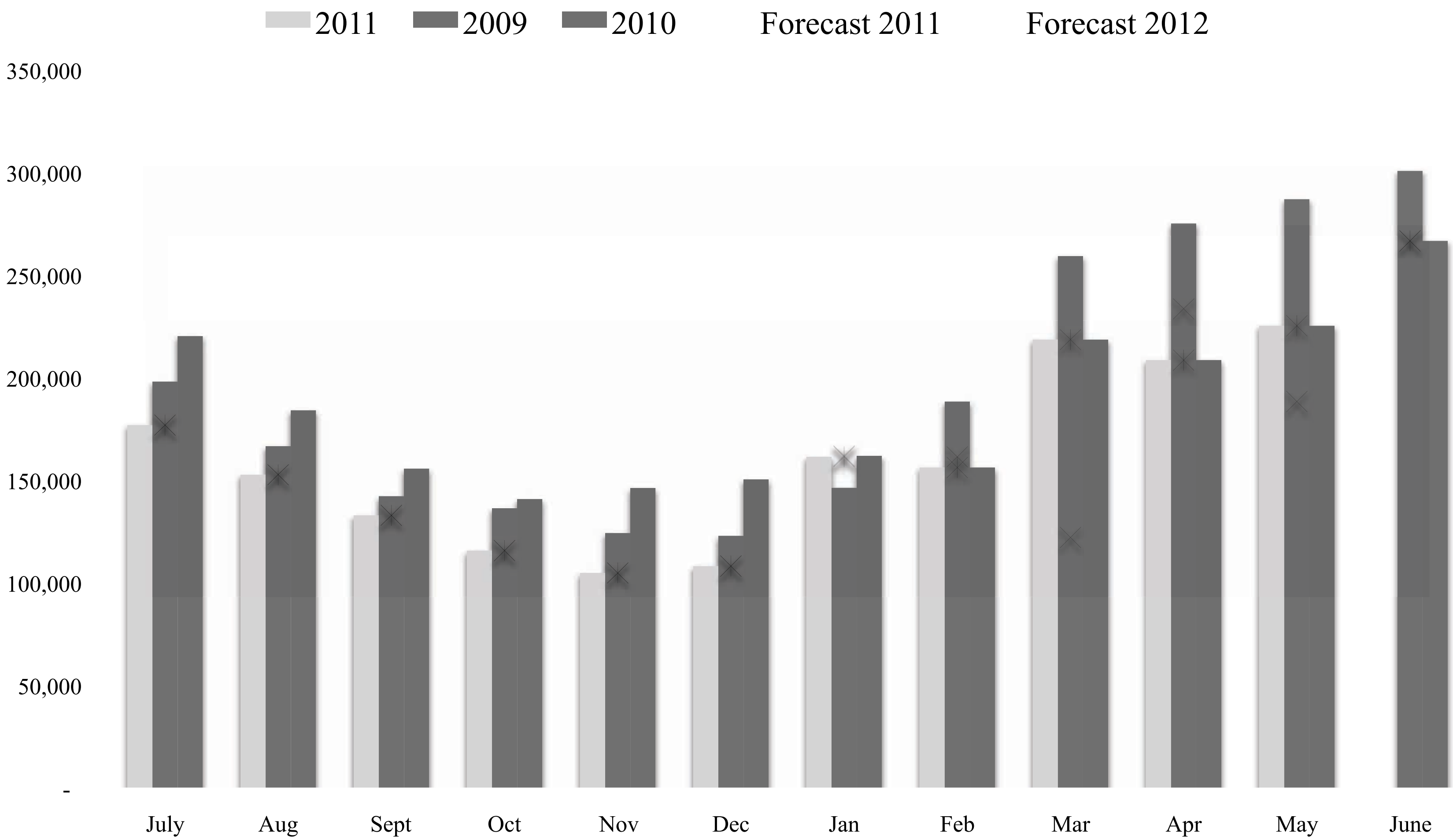


*9 parks never scheduled to be closed + 10 parks open with financial assistance.

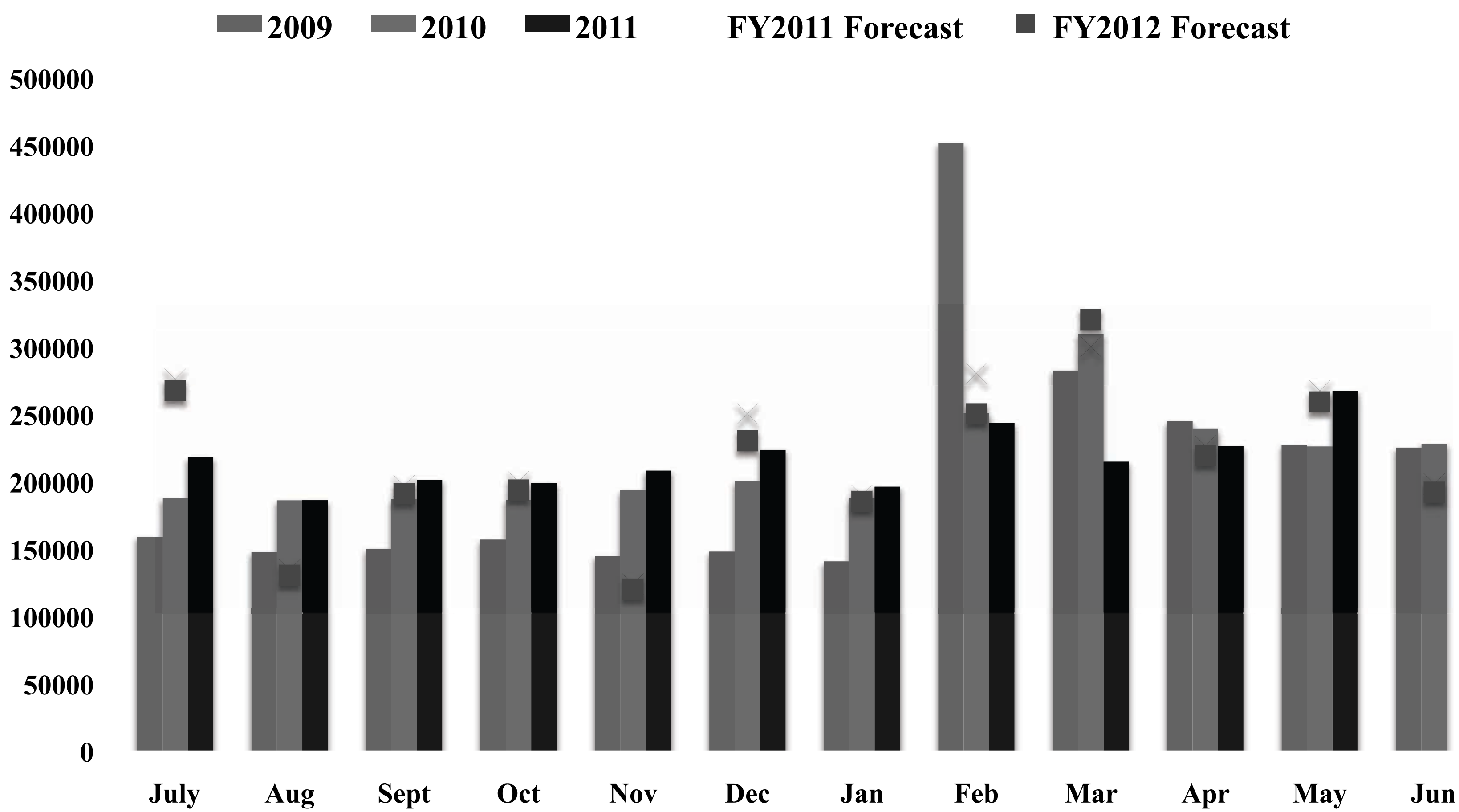
Enhancement Fund - FY 1985 – FY 2011



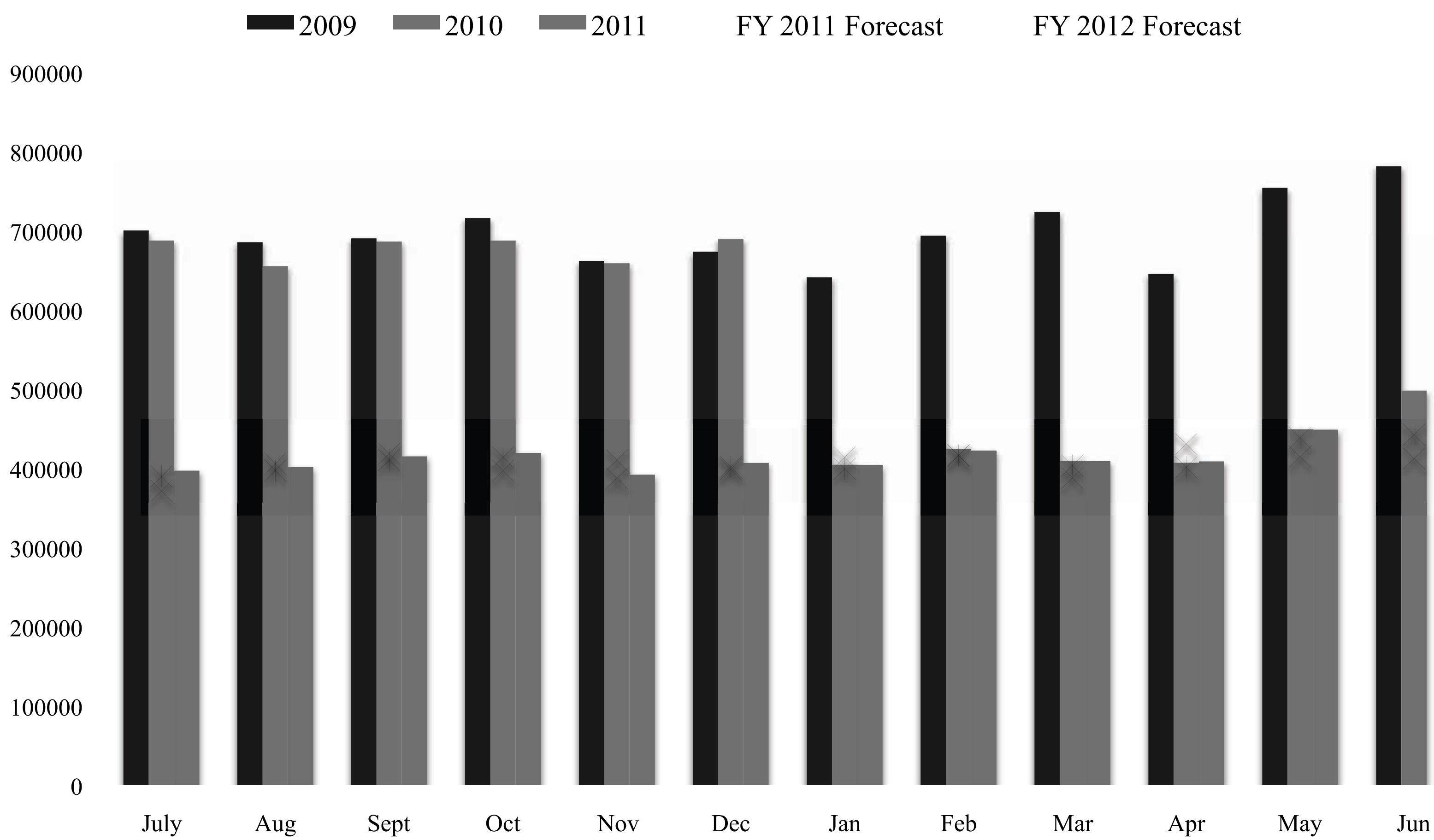
Law Enforcement Boating Safety Fund
FY 2009 - FY 2011 Revenue



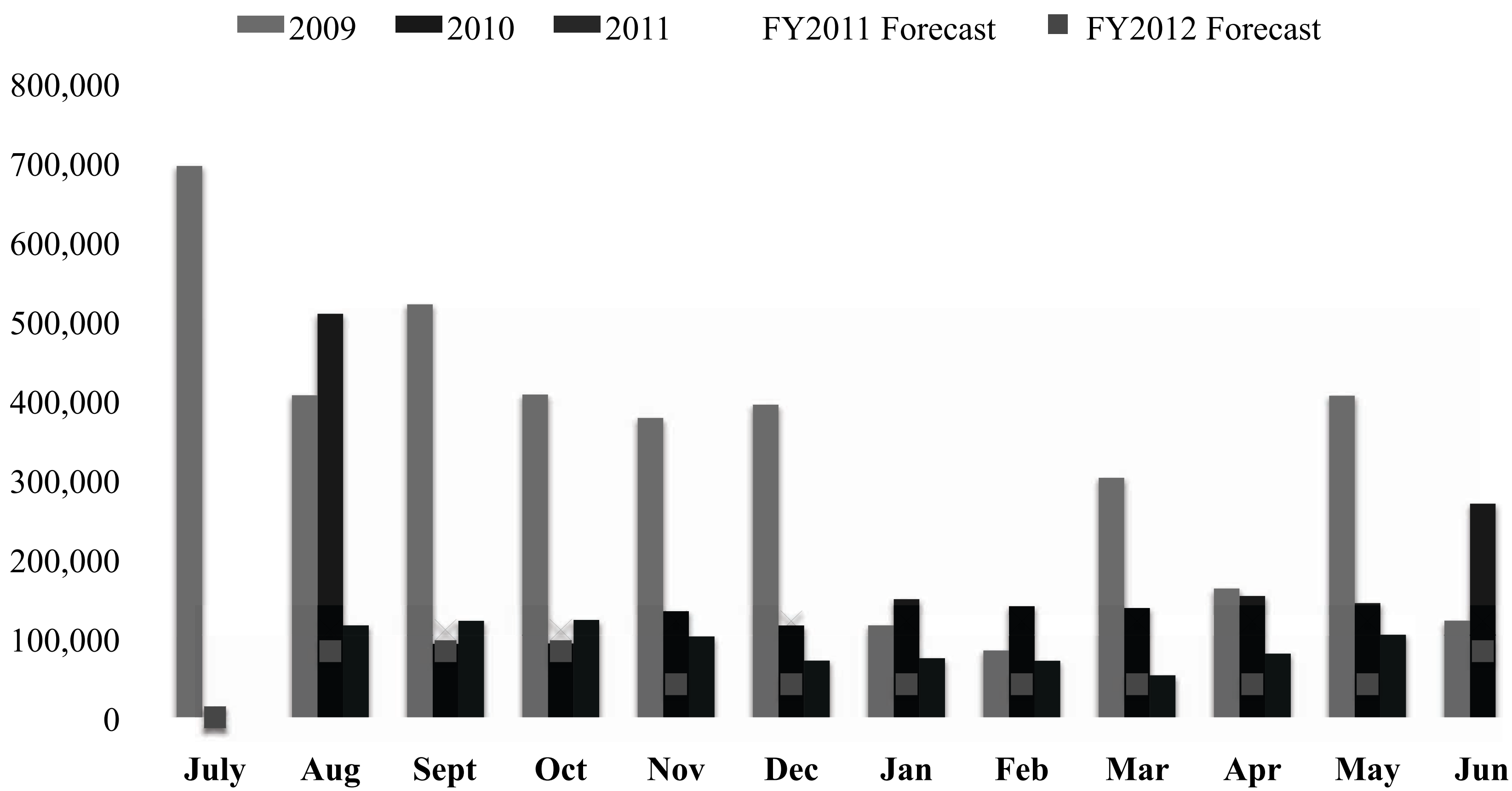
Off-Highway Vehicle Recreation Fund
FY 2009 - FY 2012 Revenues



State Lake Improvement Fund
FY 2009 -FY 2011 Revenue



All Funds Interest Earnings
FY 2009 - FY 2011 Revenue



Arizona State Parks Budgets F.1.a

FY 2012

Operating Budget

Assumptions

FY 2012
Operating Budget –Assumptions

Keep State Parks open and operating

No additional fund sweeps in FY 2012

Expend all of LEBSF by the end of FY 2012

FY 2012
Operating Budget - Assumptions

Continued agreements to support park operations

$1 million allocated for park repair and replacement needs

Operating cash balances will be at historic low levels for the agency

Gradually shift from permanent staffing to more seasonal employees to reduce payroll costs

FY 2012
Board Policy - Considerations

SLIF expenditures greater than annual estimated revenue

No Land Conservation Fund Interest expenditures in FY2012

FY 2012
Board Policy - Considerations

Reservation Surcharge Fund (RSF) revenues forecasted to be $500,000 in FY 2012. To be used for new reservation system expansion

Marketing budget to go from $200,000 to $400,000 (contract services, no staffing)

FY 2012
Board Policy - Considerations

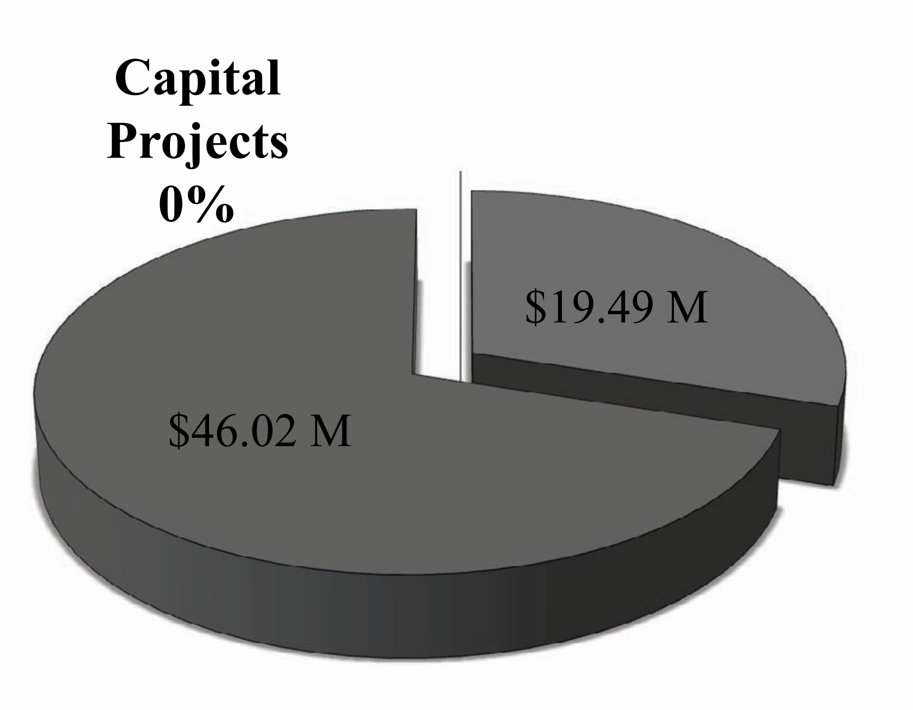
Travel Reimbursement

Consider whether travel will be reimbursed in FY2012 for Parks Board members and Advisory Committees

Donations Program – Consider possible expenditures from donation request accounts

Park and Program donation expenditures of $72,000

FY 2012 Projected Total Agency Expenditures



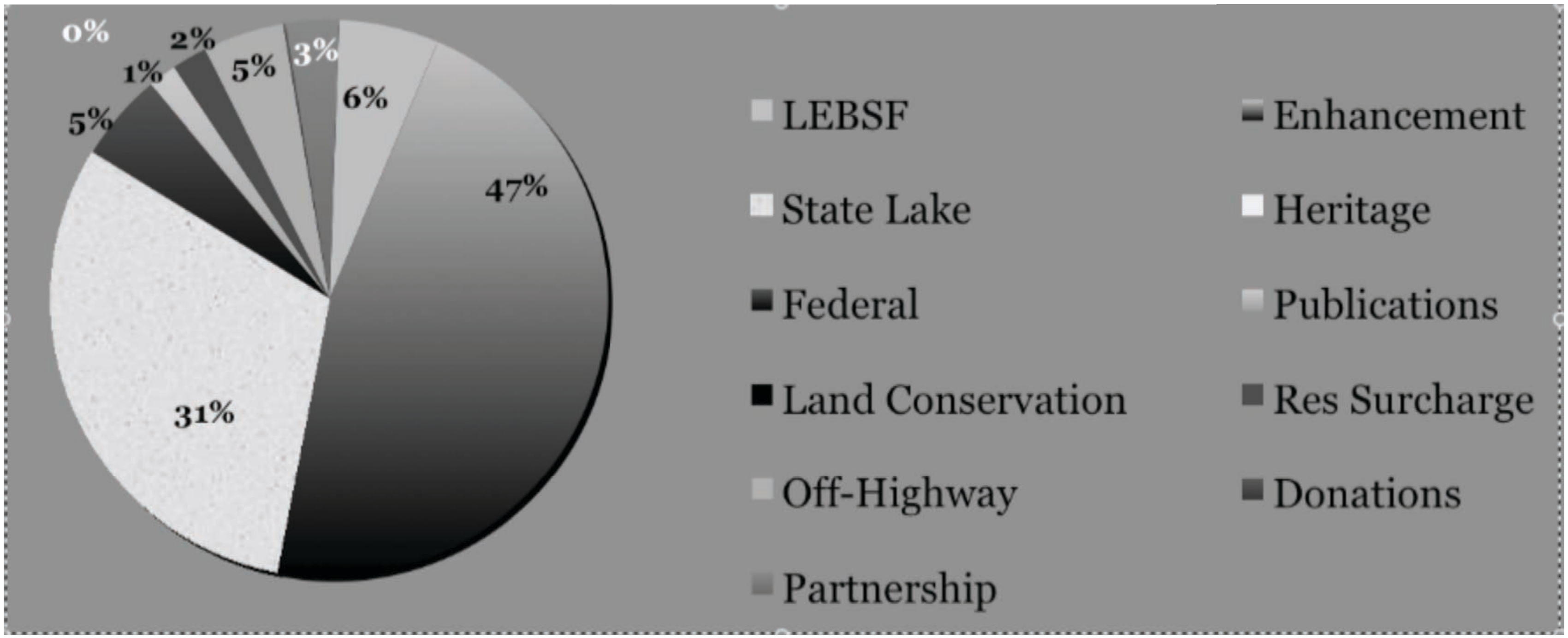
Operations $19.49 M

Grants * $46.02 M

Capital Projects $0

***Based on $40 M estimated LCF Grants to be awarded in Sept. 2011**

Projected FY 2012 Agency Annual Operating Expenditures (by Fund Source)



FY 2012 Projected $19,489,900

Projected FY 2012 Operating Expenditures (By Category)

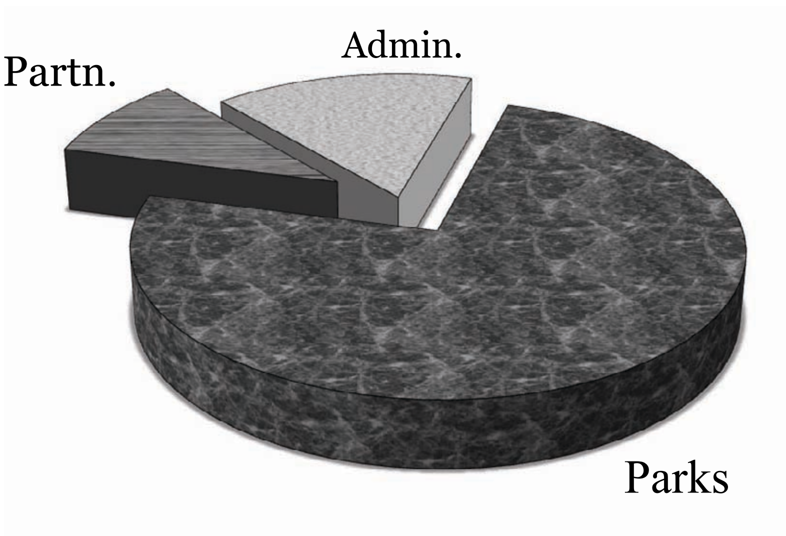
Personal Services
$8.62 M

Employee Related Expenses
$3.85 M

Other Operating
$7.01 M

Total Budget $19,489,900

Projected FY 2012 Operating Expenditures (by Program)



Total: $19,489,900

Parks $13.78 M

Operations, Development

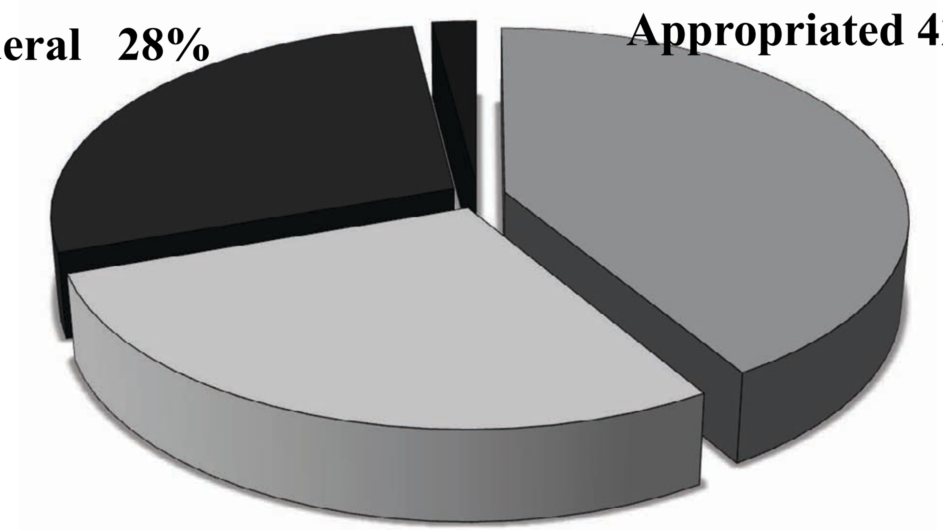
Partnerships $1.78 M

Public Information, Historic Preservation, Resources, Public Programs

Administration $3.92 M

Director's Office, Admin Services, Agency Support, Computer Support, Risk Management, Marketing, Phoenix Rent

Projected FY 2012
Agency Annual Revenue



Appropriated
($12.27 M)

Non-Appropriated
($8.40 M)

Federal
($3.91 M)

Land Conservation
Interest Fund
($.60 M)

Total $25.18 M

BUDGET F.1.b

FY 2013

Operating Budget Request

To OSPB and JLBC

$19,617,400

FY 2013 Operating Budget Request

$10 million appropriation from Enhancement Fund

Remove Kartchner line item

Increased Reservation Surcharge appropriation to $500,000 and remove $75,000 ending balance cap

LEBSF revenues above $750,000 for agency operations

Moving $1.12 million of SLIF from Operating to Capital

FY 2013 Operating Budget Assumptions

$1 million allocated for park repair and replacement needs

FY 2013 will start with operating cash balances that are historic low levels

No additional fund sweeps

Economic Impact

Arizona State Parks: FY 2010 Attendance and Estimated Economic Impacts*					
	FY 2010 Attendance	Economic Impact	Estimated Federal Taxes	Estimated St/Local Taxes	Est. County Jobs Created
Parks Never closed & Operated by ASP	1,514,597	$162,870,572	$11,948,787	$14,221,873	2,258
Parks Operated by ASP with Partners	489,529	$58,313,394	$3,893,093	$4,761,548	756
Total Parks Operated by ASP	2,004,126	$221,183,966	$15,841,880	$18,983,421	3,014
Operated by Partners without ASP	178,146	$18,381,704	$1,045,187	$1,390,279	241
Parks Closed to the public	32,408	$2,664,980	$131,681	$211,597	38
Total ASP System	*2,214,680*	*$242,230,650*	*$17,018,748*	*$20,585,297*	*3,293*
*Economic Impacts are from 2007 Northern Arizona University ASP Economic Impact Report					

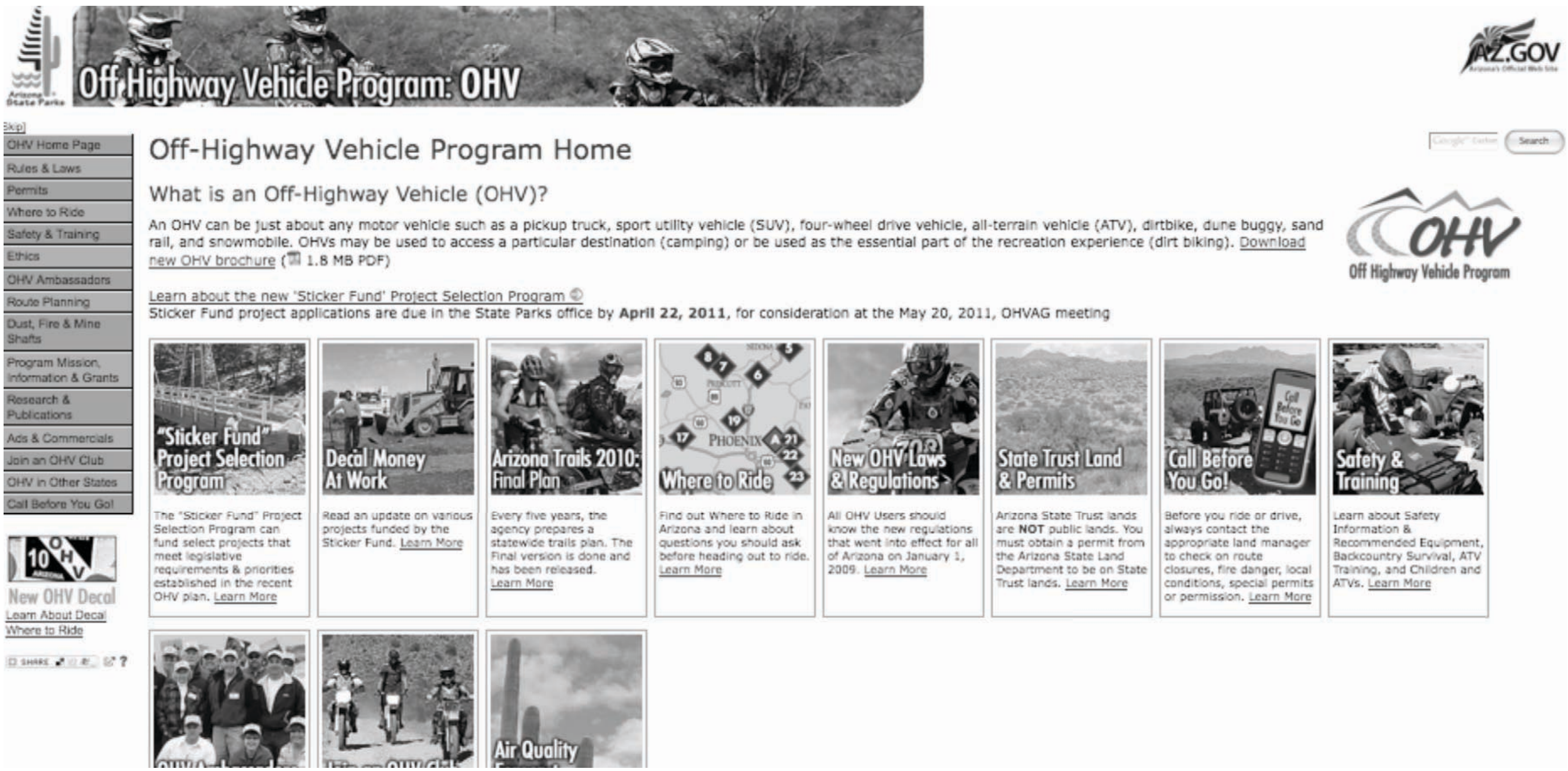
FY 2012 Off-Highway Vehicle Recreation Allocations F.1.c

Staff Recommendations

1. Up to $50,000 – Website enhancements
2. Up to $163,800 – BLM Ambassador Program
3. Up to $166,300 Ambassador Program grants for program expansion
4. Up to $1.8 M – OHV projects

FY2012 Off-Highway Vehicle Program

Website Enhancements – 50,000 page views annually



FY2012 Off-Highway Vehicle Program

Ambassador Program – Greeting the Public

FY 2012 Off–Highway Vehicle Program

Volunteers Building Trailhead Kiosk

FY 2012 Off-Highway Vehicle Program

Fencing & Road Rehab

FY 2012 State Historic Preservation Office Work Plan F.1.d

Approval of Work Plan is required for agency to receive Federal Grant money

Work falls under the following categories:

- *Program administration, compliance, survey and inventory,*
- *National and State Registers of Historic Places, planning, grants, Certified Local Governments, Tax Incentives, Public Education and Technical Assistance*

Capital Improvement Plan FY 2012 & FY 2013

FY 2012 Capital Improvement Plan Summary

ASP has more than $150 million in capital needs

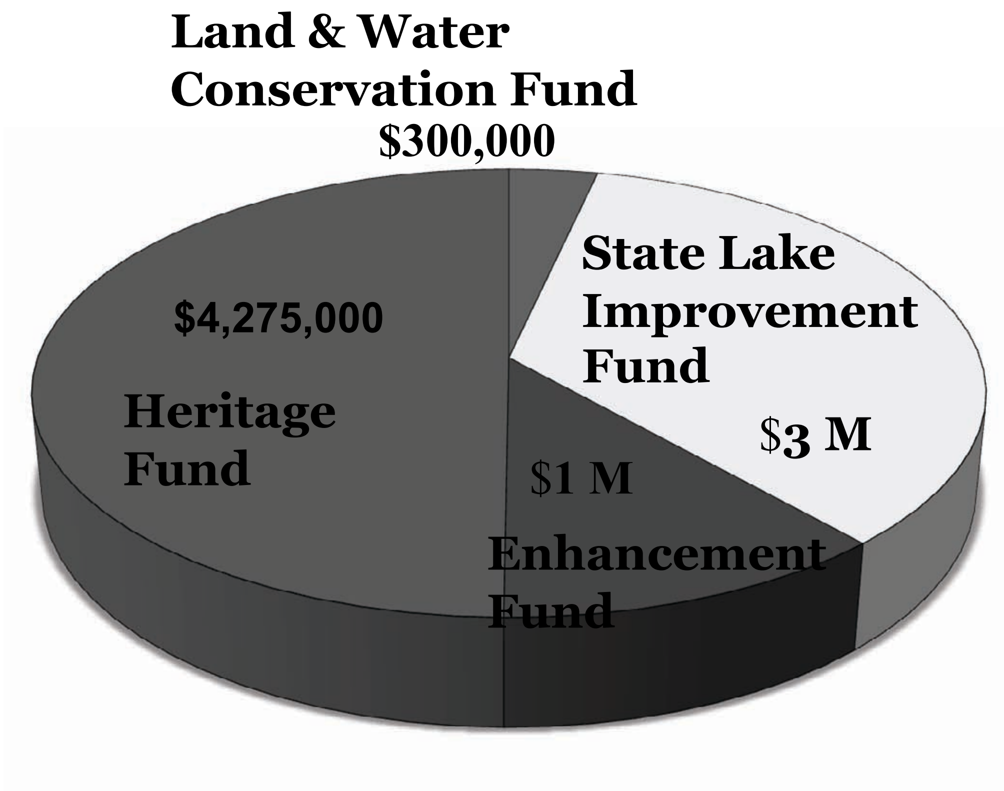
FY 2012 & FY 2013 identifies $20 million in Capital Improvement Plan projects

FY 2012 Budget allocates $0 funding for capital needs

Comparison of Annual Capital Projects for State Parks - FY 2008 vs FY 2012 (By Fund Source)

FY 2008 - $8.6 M

FY 2012 - $0



FY 2012 and FY 2013 Strategic Plan for Gov. Office of Strategic Planning F.2.

Presentation of Revised FY2012 and FY2013 Strategic Plan – Progress

1. Resources
2. Visitors
3. Planning
4. Partnerships
5. Communications

Discussion Item G.

Priorities and Potential Solutions

1. Sustainable Funding
2. Legislative Issues

Arizona State Parks Board
June 22, 2011

Arizona State Parks

AZStateParks.com

Arizona Commission on Privatization and Efficiency

Report to Governor Janice K. Brewer

Recommendations

Table of Contents

Recommendations

Appendix

Recommendation 1: Pension Reform

Summary: *As a first step toward constructive public pension reform, the legislature should hire an independent actuary to analyze options for reforming the Arizona State Retirement System (ASRS).*

Discussion: Over the past four fiscal years, the state of Arizona and local governments across the state have addressed billions of dollars in budget deficits by raising taxes and fees, sweeping dedicated funds, deferring payments to school districts, mortgaging assets, and making difficult cuts to core [illegible] defined benefit pension plans, which now exceed $10 billion, have triggered mandatory increases in contribution rates from the very same government entities attempting to enact balanced budgets.

This scenario is not unique to Arizona. Across the country, state and local governments are struggling to deliver government services while simultaneously funding defined benefit pension plans for public employees. Depending on the accounting methodology used, the cumulative funding deficit across all state retirement plans is somewhere between $1 trillion and $3 trillion.[1]

In response to these challenges, state legislatures are taking action. Twenty states enacted pension legislation during 2010, ranging from modest increases in the retirement age to comprehensive reforms that enroll new employees in defined contribution or hybrid plans, according to the National Conference of State Legislatures. In Arizona, the legislature passed and the Governor signed HB 2389 which will generate nearly $1 billion in savings. While the impact of HB 2389 is certainly positive in terms of cost savings, COPE believes that a more [illegible]s public employee retirement systems should be conducted.

[illegible] arguments both in favor and in opposition. To help ensure that facts and data ultimately guide the debate, the commission recommends that the legislature hire an independent actuary to analyze the following policy options, the specifics of which should be developed by the legislature:

- Continue to Enroll New Employees in the Defined Benefit Plan (ASRS)
- Enroll Newly Hired Employees in a Defined Contribution Plan
- Enroll Newly Hired Employees in a Hybrid Plan
- Enroll Newly Hired Employees in and Transition Some Current Employees to a Defined Contribution Pan
- Enroll Newly Hired Employees in and Transition Some Current Employees to a Hybrid Plan

[1] [illegible]

In particular, the study should provide long term projections of employer and employee contribution rates and amounts, plan funding status, and active membership for each of the above policies under a baseline, optimistic, and pessimistic investment scenario. The information contained in the actuarial analysis will enable lawmakers to answer two fundamental questions:

1. What is the short, medium, and long term cost of each policy?
2. To what degree do the short, medium, and long terms costs of each policy vary under different investment scenarios?

The answers to these questions will enable lawmakers to compare the overall cost and taxpayer risk exposure associated with each option. In fact, the proposed analysis above was suggested to COPE by Utah State Sen. Dan Liljenquist—who sponsored Utah's widely cited pension reform legislation in 2010—as the most constructive "first step" towards understanding the scale of the problem and framing reform solutions. With the debate over cost and variability levels settled by the results of the analysis, policymakers in Utah were able to focus on the more important issue of selecting the cost and variability levels that are most appropriate for the state, according to Sen. Liljenquist.

COPE recommends that the Arizona Legislature undertake similar research to form the basis of a larger pension reform strategy. Further, COPE recognizes that any reforms impacting current employees may require a constitutional amendment and are almost guaranteed to face legal challenges. However, for the purposes of comparison, we believe that such changes to current employee pensions should be contemplated in the analysis. Lawmakers will have the opportunity to consider the costs and benefits of each proposal and draw their own conclusions.

Recommendation 2: Privatize Operation and Management of the Arizona Lottery

Summary: *Issue a Request for Expressions of Interest to private investor-operators for the potential private sector operation and management of the Arizona Lottery.*

Discussion: The Arizona Lottery has been a beneficial asset to the state, transferring nearly $700 million of net operating revenues to state coffers over the last five years. While this may seem an impressive sum in the abstract, a closer look at lottery revenue and expense trends in recent years suggests that the state lottery is an underperforming asset overall.

As shown in Table 1, the lottery's annual operating revenue has increased over 17% from $469 million in FY2006 to over $551 million. However, the lottery's expenses have grown at a far higher rate, increasing nearly 25% over the same time period, effectively negating the benefit of increase sales revenues. As a result of this growing mismatch between revenues and expenses, the amount of lottery profits returned to the state has held nearly flat over the last five years, Despite significant increases in sales revenues, the lottery's net income—and thus net transfers to the state—are not growing.

Table 1. Arizona Lottery Revenue, Expenses & Transfers (FY2006-2010)

Arizona	FY2006	FY2007	FY2008	FY2009	FY2010	Total Growth, FY06-10 (%)
Operating Revenue ($M)	$468.7	$462.2	$472.9	$484.5	$551.5	17.7%
Operating Expenses ($M)	$328.3	$323.1	$329.6	$357.8	$410.1	24.9%
Net Operating Income ($M)	$140.4	$139.1	$143.3	$126.7	$141.4	0.7%
Transfers to other State Funds ($M)	$141.1	$139.9	$144.5	$129.1	$141.9	0.6%

Source: Arizona Lottery annual financial reports, 2006-2010, arizonalottery,com.

The state is essentially working harder and harder to chase an almost imperceptible increase in net operating income. Even a modest improvement in lottery sales or internal efficiencies would add value. In other words, seeking alternatives to the current lottery operation almost by definition could improve the performance of the lottery.

Illinois' state lottery has faced a similar situation to Arizona's in recent years (see Table 2), with little increase in net income transfers to the state over time. A drive to improve this performance while generating needed new revenues during a major fiscal crisis has recently prompted Illinois to pursue a major shift in lottery operations and management through a first-of-its-kind privatization-type initiative.

Table 2. Illinois Lottery Revenue, Expenses & Transfers (FY2005-2009)

Illinois	FY2005	FY2006	FY2007	FY2008	FY2009	Total Growth, FY05-09 (%)
Operating Revenue ($M)	$1,856.0	$1,993.0	$2,021.0	$2,089.0	$2,082.0	12.2%
Operating Expenses ($M)	$1,234.5	$1,359.4	$1,388.0	$1,439.0	$1,444.0	17.0%
Net Operating Income ($M)	$621.6	$634.4	$633.8	$650.1	$638.4	2.7%
Transfers to other State Funds ($M)	$619.5	$645.9	$631.2	$648.5	$634.7	2.5%

Source: Illinois Lottery annual financial reports, 2005-2009.

In September 2010, Illinois Gov. Pat Quinn announced the winning bidder for a 10-year contract with a private consortium to take over the management of the state lottery. According to state officials, the landmark deal will guarantee the state approximately $4.8 billion for the state by 2016, representing more than a $1 billion increase over the revenues projected if the lottery were to remain under state management.

Under the terms of the 10-year contract, the winning bidder—Northstar Lottery Group, a partnership between GTECH and Scientific Games—will take over responsibility for lottery operations, management and marketing functions in exchange for a portion of revenues (capped at 5%). The state of Illinois will continue to exercise control and oversight over all significant business decisions, including the state approval of annual business plans and ability to access all vendor information regarding lottery operations.

The deal also ties the operator's compensation to its performance at enhancing lottery revenues; however, the contract includes a 5% total net income cap on the potential profits for the contractor, as well as penalties paid to the state if the company fails to hit revenue targets. The contractor will retain all 170 current lottery employees and has announced its intention to hire an additional 100 private sector employees.

Northstar plans to increase revenue through enhanced marketing, an expansion in the number of retail establishments selling lottery tickets, and the introduction—subject to state approval—of new and more appealing games designed to appeal to a wider swath of the population.

In order to stay within the bounds of federal law, Illinois will not sell or lease the lottery operation outright. Rather, the state is contracting out operations and management duties while retaining a strong role in decisions affecting the lottery and public access to all lottery operations. The partnership will be governed by a private management agreement requiring the private manager to submit a business plan each year for official state approval, allowing the state to maintain public control of operations while affording the private manager flexibility in game offerings.

Notably, the procurement was designed to have potential vendors bid on the guaranteed revenues they would return to the state over the five-year period between FY2012 and FY2016; Northstar guaranteed revenues to the state that step up from $851 million in FY2012 to over $1 billion in FY2016, as shown in Table 3.

By contracting for specific annual revenue targets, Illinois is effectively guaranteeing a higher level of performance and substituting a known (guaranteed revenues from the operator) for an unknown (what revenues the state would have returned absent privatization). The Illinois contract calls for the private manager to submit an upfront security deposit and, in the event that the contractor fails to generate the required revenues in a given year, the contract requires it to make a revenue shortfall payment to the state—a significant transfer of risk. Hence, if the operator fails to meet the state's revenue targets, it will be ineligible for incentive payments and will be responsible for covering the shortfall.

COPE believes that Arizona policymakers should explore the possibility of a similar transaction for the operation of the Arizona Lottery. While it is impossible to estimate the potential benefit of such a transaction absent an actual procurement, as noted above even small performance improvements could produce meaningful results for the state. COPE prepared a conceptual model for what a similar arrangement might yield in Arizona (see Table 3). As a baseline for comparative purposes, COPE assumed that if left under state operation, net transfers from the Arizona Lottery to the state would increase by a total of 3% between FY2010 and FY2016, an optimistic assumption given that transfers have only increased by 0.6% over the last five years.

Table 3 shows that Arizona could see a significant expansion in revenues if it were able to negotiate a similar lottery operating contract as Illinois. Given that the two lottery systems are different—and a conservative assumption that Arizona's smaller system may be less attractive to private investor-operators than Illinois'—we assume that a procurement in Arizona would yield less guaranteed revenue growth than Illinois' contract. In fact, we assumed that a contract in Arizona would be designed to merely match the total growth in transfers Illinois was expecting under state operation—*without* its management contract (26.5% over FY2010-16)—as even this less ambitious growth target would be a significant gain for Arizona and would be a major step towards bringing the growth of lottery revenues in line with the recent growth in lottery expenses.

Even with these conservative assumptions, we estimate that a similar privatization, on less generous terms than Illinois', could increase lottery transfers to the state by between $107-210 million over a five year period in Arizona. COPE believes that state policymakers should avail themselves of the potential opportunity to maximize the value of this important state asset in a way that guarantees higher revenue returns to the state than can reasonably be expected under state operation.

It should be noted that Illinois has already signed the lottery operating contract with Northstar, though a January 2011 court ruling invalidated the omnibus legislation that originally granted statutory authority for the procurement to proceed. While the legal proceedings remain unclear, it is important to note that the law's invalidation related to a violation of single-subject requirements for the overall legislation and did not relate to the privatization component itself. Hence, Illinois' current legal proceedings should not be interpreted to suggest that other states could face similar issues. The actual contract signed was the result of a competitive bid process and market competition, so other states could expect similar interest from potential bidders.

Table 3. Illinois Lottery Management Contract and Arizona Lottery Privatization Estimates (FY2010-2016)

	FY2010 (Pre-Contract)	FY2011 (est.)	FY2012	FY2013	FY2014	FY2015	FY2016	Total, FY12-16	Estimated Net Total Revenue Gain Through Privatization, FY12-16 ($M)	Total % Growth, FY10-16
Illinois Contract										
State Operation: *Transfers to State Funds, No Contract*	$635	$660	$687	$714	$743	$773	$803	$3,720	-	26.5%
Contract: *Guaranteed Transfers to State ($M)*	$635	n/a	$851	$950	$980	$986	$1,000	$4,767	$1,047	57.5%
Arizona Contract Scenarios										
State Operation: *Transfers to State Funds, No Contract, Assumed 3% Total Growth*	$142	$143	$143	$144	$145	$145	$146	$724	-	3.0%
Contract: *Guaranteed Transfers to State ($M), Assumed 26.5% Total Growth*	$142	$148	$153	$160	$166	$173	$180	$831	$107	26.5%

Recommendation 3: Adopt a Priority/Outcome-based Budgeting Process

Summary: *The adoption of a priority or outcome-based budgeting system would help Arizona policymakers to more easily identify the governmental activities most important to Arizonans and make difficult trade-off and cost-benefit decisions. It would also result in the provision of better, more efficient state government services while allowing Arizona to protect taxpayers and maintain fiscal responsibility.*

Discussion: Arizona's chronic structural budget deficit is the inevitable outcome of a fundamentally flawed and antiquated budget process. In Arizona, like most other states, budgets are typically developed by adjusting the current budget for inflation and caseload increases—so called "baseline budgeting," but this process takes discretion and performance evaluation out of the mix entirely. In "normal" fiscal times, the budget tends to be built on the premise that last year's dollar was a good dollar spent, so this year a given agency or program should spend what it did last year, and then some.

By perpetuating this dysfunctional approach to the stewardship of taxpayer funds, policymakers become enablers for agencies and programs that are ineffective at meeting their intended policy and service delivery goals, have fundamental design flaws or any other number of problems. The tried and true way of building budgets virtually guarantees overspending since there is little, if any, feedback loop between dollars spent and performance, efficiency or outcomes.

The problem is exacerbated in a fiscal crisis like that facing Arizona today. In this situation, policymakers find that the baseline budget is higher than the estimated revenue forecast and then go about focusing on a combination of programmatic spending reductions, tax increases and accounting gimmicks to make general fund resources match revenue forecasts. This approach ignores what should be the central question: whether existing state programs are efficient or effective.

There are surely some functions that state government can stop providing, but unfortunately the traditional budgeting process fails to facilitate this sort of downsizing. Traditional state budgeting focuses only on changes to a base budget at the margins, and rarely are the "big picture" questions asked—in essence, the budget is on autopilot. The logic of autopilot budgeting is simple—that in order to maintain current service levels agencies need to spend what they did last year and an increase to account for inflation and population increases. Put simply, this moves the discussion to the margins of spending—the annual spending increase requests from agencies. Unfortunately, the majority of spending is left out of the debate and seldom is analyzed for its relative merits. In fact, it is generally assumed that the activities should continue to receive funding. Put simply, the traditional budgeting process effectively establishes a default position that state government will just continue to expand over time, representing an unsustainable approach to state fiscal management.

Several states (and more cities and counties) are changing their views about government budgeting. *Priority or outcome-based spending* treats spending as an investment—the type and amount of investment should change yearly as results, performance, and needs change. Budgeting this way shifts the focus on the investments and what can be accomplished with available resources—when resources run out, spending stops.

Arizona needs to follow the lead of Washington State, Iowa, and others (see Table 4) and begin shifting to an outcome-based budgeting system, also known as Budgeting for Outcomes (BFO), in which policymakers and the public collaboratively rank programs according to how cost-effective they are at achieving the results citizens want. The state government then goes down the list, funds the most important programs first, "buying down" with available revenues until they run out of money. This ensures that vital services are being funded before less-critical ones, and services not deemed of greater importance are reduced or eliminated. Kitchen table budgeting works this way, and there is no reason the state should not do the same.

Table 4. Jurisdictions That Have Used Budgeting for Outcomes

States	Counties
Washington Iowa South Carolina Michigan Louisiana Dept. of Culture, Recreation and Tourism	Snohomish, WA Multnomah, OR Mesa County, CO Polk County, FL Larimer County, CO Coconino County, AZ
Cities	**School Districts**
Azusa, CA Spokane, WA Dallas, TX Ft. Collins, CO Northglenn, CO Redmond, WA Eugene, OR Savannah, GA Baltimore, MD Tacoma Metro Parks, WA	Jefferson County, CO Billings, MT

Source: David Osborne, *The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay*, Policy Study 380, Reason Foundation, April 2010, p. 2.

Washington State—Priorities of Government Budgeting Model

Budgeting for Outcomes was first employed by Governor Gary Locke in the State of Washington in 2003 and was called the Priorities of Government (POG) model. At the time, Washington was facing a $2.4 billion budget shortfall (approximately 10-15 percent of the size of the General Fund operating budget). Significant changes were needed to plug the hole in the budget. In an effort to make the most of limited resources and ensure that the most important governmental functions were properly funded, the Locke administration called for a top-to-bottom evaluation of what services the government provided and how and implemented priority-based budgeting to close a budget deficit of $2.4 billion without raising taxes. Had the traditional cost-plus budgeting system been used, legislators would have started with the baseline budget and focused on cutting programs or raising taxes until the general fund matched the forecasted revenue. Instead, the state prioritized services and determined what the most important things to buy or deliver were for the dollars invested.

The Public Strategies Group, led by author, reform expert, and consultant David Osborne (who f. cn□ ,i . g□E p,c. 'b□ f□ uE 9p4□o . ,'—. 'b,'h □ u—Ez . 'b6,□', b, b—□bba. A□. c. E ff□. —f''□c . Eba. □ Clinton administration), developed the POG approach with the Locke administration as a central means of closing the budget deficit. The administration identified a set of ten key results that citizens expect from government:

- Improve student achievement in elementary, middle, and high schools.
- Improve the quality and productivity of our workforce.
- Improve the value of postsecondary learning.
- Improve the health of Washington citizens.
- □z lEu—. ba. p□. i ''E,bl uAm pa, 'h bu'9p—''f. E sf. i□a, fcE '□'c□c''fbp□
- Improve the economic vitality of business and individuals.
- Improve statewide mobility of people, goods, information, and energy.
- Improve the safety of people and property.
- □z lEu—. ba. y□' f,bl uAm pa, 'h bu'9p'□ b'E fE. pu''Ei . p□
- Improve cultural and recreational opportunities throughout the state.

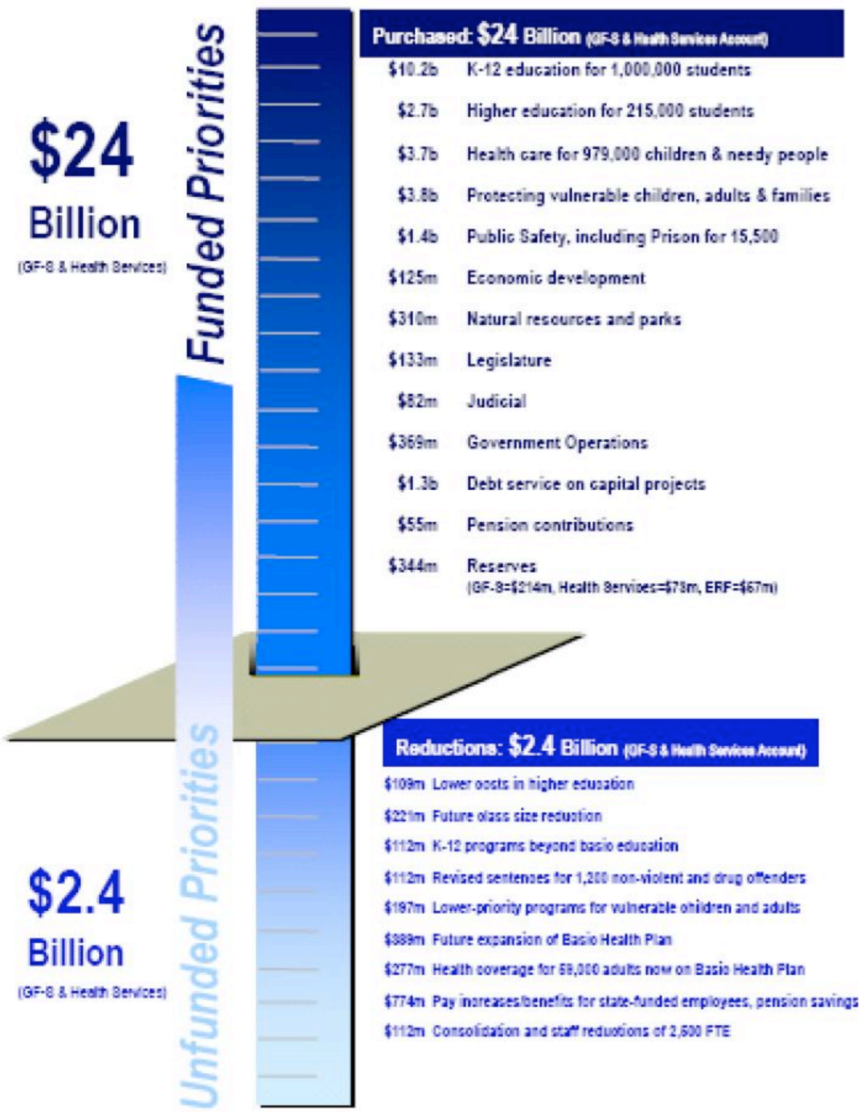
4Result teams6 were formed to analyze government activities in each of the ten result areas. In Washington, result teams are comprised of six to eight subject-matter experts from state agencies, and are led by the Office of Financial Management. These teams analyzed and ranked government activities according to how well they achieved the desired outcomes as outlined in the ten governmental goals. The result teams were aided by a 10-member 4h'',c 'i . b□ z 6□ comprised of leaders of the public, private, and nonprofit sectors. The guidance team was tasked with overseeing the prioritization process and reviewing the work of the result teams.

In order to aid in the decision-making process, result teams were each given a dollar allocation to serve as an upper spending limit for their purchase plans. Washington reached several key conclusions regarding the allocation limit:

- The prioritization process is often more meaningful when the allocation is less than the amount currently spent in that area.
- A dollar constraint encourages creativity, keeps proposals grounded in financial reality, and forces people to articulate priorities and choices.

The priority rankings established by the result teams were then used to develop the 2003-05 biennial executive budget proposal. Activities were funded from the top of the list down until the spending limit was reached. Figure 1 offers an illustrative example of some of the spending priorities that were established.

Figure 1: Washington State POG Example



Source: Washington State Office of Financial Management.

The POG model is still used in Washington State today under the current administration, demonstrating the longevity of the approach and its resilience to changes in leadership.

Why Budgeting for Outcome Works

Across-the-board cuts are generally ill-advised—they treat and affect the highest performing and most important services equally with low performing and less important services. By focusing on performance and priorities, policymakers can target their cuts—ridding taxpayers of poor performing, non-essential, and non-core services.

Since politicians, special interests, and bureaucrats often focus on narrow interests and spending priorities, ignoring the larger picture and the sacrifices necessary to accommodate those desires, perhaps the greatest benefit of BFO is simply making budgetary priority and trade-off decisions clear to all. As a 2005 U.S. Government Accountability Office report of innovative state performance budgeting efforts noted:

> *One Washington legislator said that [BFO] provided decision makers with proposed priorities in a clear and easily understood format that encouraged constructive debate. . . Legislative officials said that the greatest contribution of [BFO] was that it provides a strong, clear means of communicating budgetary trade-offs to both decision makers and the public.*

The BFO approach to budgeting has several other advantages over the traditional incremental [illegible]

- BFO focuses on achieving results and developing statewide strategies for realizing goals, [illegible]
- BFO illustrates not only which programs are cut, but which programs are funded.
- BFO presents trade-offs and cost-benefit decisions in a way that is clear and easy for decision makers and citizens alike to understand.
- BFO makes performance information more relevant and useful to budget decisions.
- BFO allows decision makers to reward programs and activities that best serve state goals and helps reduce waste by identifying ineffective and duplicative programs and services.
- BFO helps identify statutory limitations that are obstructing more effective service delivery.

Adopting a BFO approach would be a major step for Arizona towards bringing sanity and fiscal sustainability to the budget process. It integrates strategic planning, zero-based budgeting, and performance-based budgeting in a workable, common-sense system that has been replicated in numerous state and local governments. Arizona policymakers would be well-advised to begin implementing a similar transformation in the budgeting process to ensure that taxpayer dollars are spent with maximum effectiveness and that the trade-offs among different categories of spending$ especially in a budget crisis$ are made clear and explicit.

Additional Resources

- David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*, (New York, NY: Basic Books, 2004).
- David Osborne, *The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay*, Policy Study 380, Reason Foundation, April 2010.
- [illegible] http://www.ofm.wa.gov/budget/pog/.
- U.S. Government Accountability Office, [illegible] *Efforts*, Report No. GAO-05-215, February 2005, http://www.gao.gov/new.items/d05215.pdf.

Recommendation 4: Elimination, Merger, Efficiency Review or Privatization of Agencies, Boards and Commissions

Summary: *COPE recommends a systematic review of agencies, boards and commissions for elimination, merger, efficiency review and/or privatization. COPE offers preliminary recommendations on potential elimination, merger, review and/or privatization opportunities for over 70 agencies, boards and commission to serve as a starting point for a larger review discussion.*

Discussion: Arizona state government includes over 100 specialized agencies, boards and commissions that were established over time by policymakers to fulfill certain functions or address specific problems on behalf of Arizona taxpayers. While well-intentioned in their conception, government inevitably expands over time as these agencies, boards and commissions are formed$ often with duplicative, overlapping or even contradictory missions$ and they are rarely evaluated to determine whether they are delivering results or if their continued existence is even warranted. Without a principled, periodic review to identify what boards and commissions can be eliminated, consolidated, reviewed or privatized, there will always be a tendency towards government sprawl and inefficiency.

Maximizing the value of taxpayer dollars demands that public officials continually monitor the effectiveness of and need for various government entities. It is particularly important for government to concentrate on core functions during challenging fiscal crises, as there should be no room in the budget for low-priority programs. Reasons that an agency, board or commission could be deemed non-essential or low priority may include:

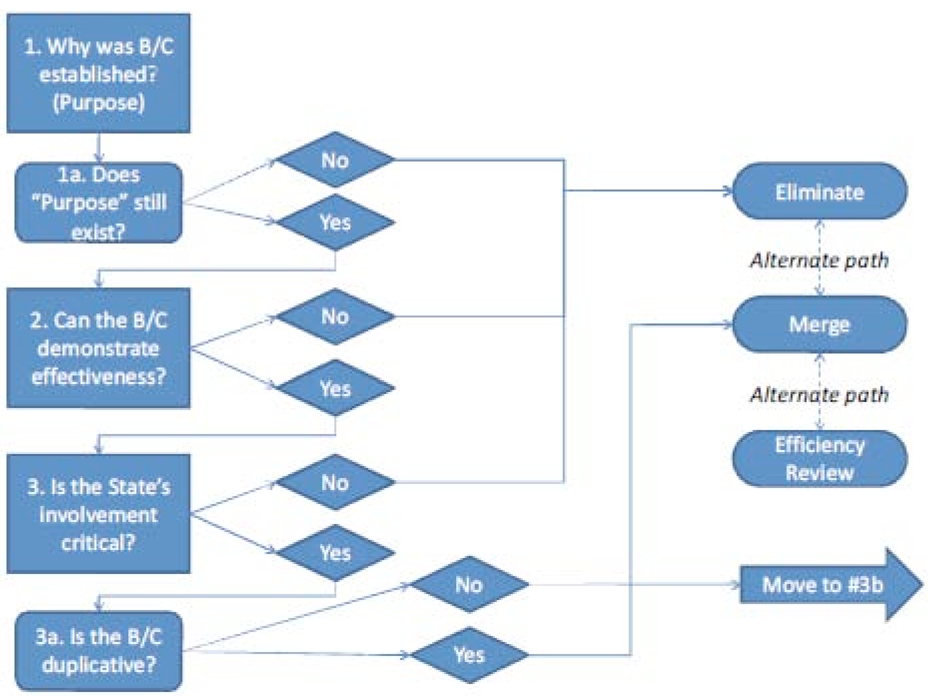
- The entity is unnecessary for performing core functions of government.
- The entity performs functions duplicative of other government programs.
- The entity performs services that are already adequately provided in the private sector (or which could be).
- The entity9pl pbuEi"E 'bs"ch . b El hEuUth is not justified.
- The entity performs functions that are better suited to local governments.

The state budget can only become balanced on a sustainable basis if policymakers return their focus to providing only the core functions of government. Similarly, the sb b 9ph u—.Ez . 'b f sub-units should either demonstrate a record of effectiveness toward the stated purpose for creation or face elimination or reorganization. COPE believes that agencies, boards and commissions that perform the same services or mission should be eliminated or consolidated, and those that provide unnecessary, non-core services should be eliminated outright.

Recommendation: A full review of over 100 agencies, boards and commissions will take a sustained commitment on the part of state policymakers, which COPE believes would be best Ai ,f,b b cs 1. pb sf,pa, ' h 'u' hu, ' hl Eui . ppbup 1pb z b,i ff1 E —.,U l. E. ' bu Aba. v b b 9p agencies, boards and commissions for potential elimination, consolidation, merger or privatization each year over a five-year period. One option would be for the legislature to utilize its discretionary authority under the state's existing Sunset Review process to direct this review activity. Another option, given the political sensitivities involved with such decisions, would be for the legislature and governor to establish an independent third party review modeled after the highly successful federal Base Realignment and Closure (BRAC) process, in which an independent task force is authorized to review all agencies, boards and commission and issue a package of recommended eliminations and closures for an up-or-down (non-amendable) legislative vote.

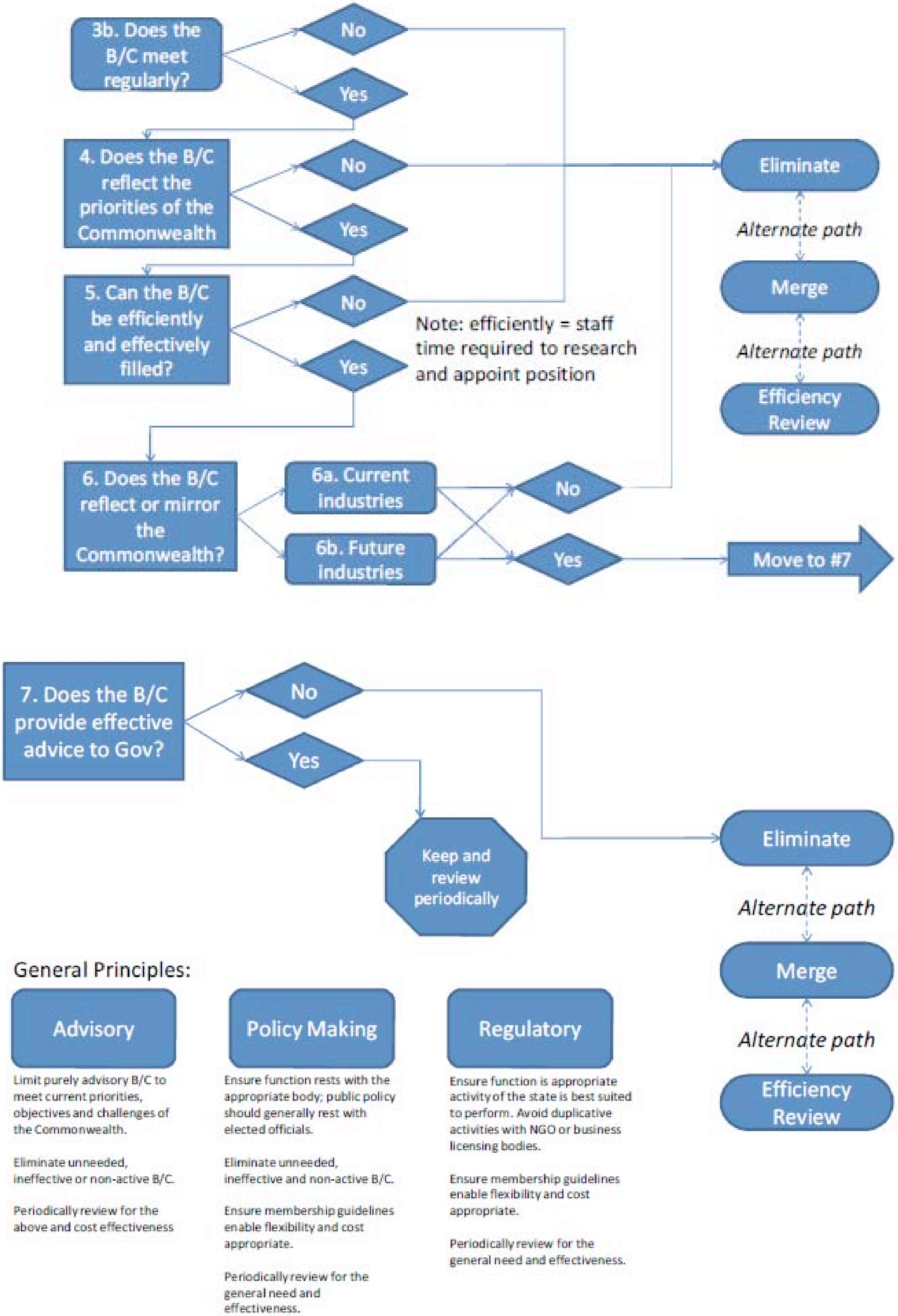
COPE also recommends that any systematic review process utilize the following criteria flow chart (see Figure 2)—developed and recommended by the Virginia Governor's Commission on Government Reform & Restructuring in their October 2010 interim report—to serve as a guide to decision making to ensure that the process remains grounded in the goal of ensuring that the state is only providing core, critical services.

Figure 2. Decision Flowchart for Evaluating Agencies, Boards and Commissions



Source: Virginia Governor's Commission on Government Reform & Restructuring, *Interim Report to the Governor*, October 15, 2010, pp.16-17.

Figure 2 (continued). Decision Flowchart for Evaluating Agencies, Boards and Commissions



Source: Virginia Governor's Commission on Government Reform & Restructuring, *Interim Report to the Governor*, October 15, 2010, pp.16-17.

While not attempting to prejudge the outcome of whatever formalized review process may be created, COPE conducted a preliminary review of over 70 agencies, boards and commissions and offers the following recommendations on potential opportunities for elimination, consolidation, review and/or privatization (see Table 5). COPE hopes that this review offers a guide to inform a more formalized process.

Recommendation 5: Implement Student-Based Budgeting in Arizona

Summary: *Arizona should create one simple funding mechanism that distributes federal, state and local education funding based on a "student-based budgeting" financing system where money follows the child to the school level, rather than the district level. The state should also implement school level budgets so that school funding is transparent and equitable at the school level rather than the district level. These reforms would make school finance simpler, more equitable and bring significant cost savings by reducing central office costs and redirecting some of this savings to increase per-pupil funding allocations in the classroom.*

Discussion: Since 1981, the state of Arizona has been working to equalize school funding between districts with different property tax wealth through state aid to provide greater equity to all public school students. The Arizona equalization law established a formula that attempts to standardize revenues and expenditures across school districts to fund annual budgets. The law dictates how much money can be raised for annual maintenance/operations and capital needs. In other words, the state legislature became the body that determines how much revenue can be generated to fund school budgets instead of a school district generating as much money as the district's property wealth could muster.

In addition, the state of Arizona already weights funding at the district level based on student characteristics. The state recognizes that some students require more resources to educate than others. When computing the maintenance/operations portion of school funding, the student count in each district is actually a *weighted student count*. A wide array of weights has been established for use in the funding formula, depending on the types of students in the mix. For example, the weight for a high school student is higher than the weight for a second grade student. The weight for a student with a learning or physical disability is higher than the weight for a student who does not have a disability.

But, regardless of the weighting system, a student in any one category–a fourth grade student with a hearing disability, for example–will bring the same amount of funding to whichever district the student attends. Unfortunately, in Arizona this weighted student count is not necessarily pushed down to the school level and schools do not receive actual dollars based on the characteristics of their students.

Schools in Arizona are allocated resources for staffing positions based on the number of full-time equivalent (FTE) salaries the district has calculated that an individual school is entitled to. So when examining individual school budgets in Arizona one finds money flowing to school positions and not children. In other words, a school principal rarely sees the actual dollars generated at the school level by the students in the building.

Individual schools with similar student populations may receive vastly different real dollar amounts at the school level within a district. In addition, in Arizona school districts allocate staff to school buildings based on student formulas rather than allowing principals' autonomy to spend school dollars to meet the needs of their individual students.

Student-based budgeting works best when all funding is equalized and not based on differences in local property tax allocation. Arizona has already made efforts to equalize funding across districts and implement equitable funding for students. Therefore, it already has a culture concerned with school equity and a more centralized funding system than most states. Student-based budgeting is the next step to drive that student equity to the school level and allow parents and school principals at the local level to make decisions about school spending.

COPE believes that Arizona should create one simple funding mechanism that distributes federal, state and local funding based on a "student-based budgeting" financing system that would include one base allocation equalized across the schools within a district and additional weighted funds for students with additional needs including characteristics such as special education, poverty or English learners.

This process would make school finance simpler, more equitable, and bring significant cost savings by reducing central office costs and redirecting some of this savings to increase per-pupil funding allocations in the classroom. In addition, Arizona should require the funding to follow students down to the school level and allow principals discretion over school budgets.

Using student-based budgeting's decentralized system, education funds are attached to each student and the students can take that money directly to the public school of their choice.

Key student-based budgeting principles that improve educational outcomes as well as the transparency and accountability of schools include:

1. Funding following the child to the public school of his choice;

2. Per student funding varying based on a child's educational needs, with special education students and others receiving larger amounts; and

3. Funding arriving at individual schools in real dollars, not in numbers of teaching positions, staffing ratios or as salary averages.

In addition, one of the most important factors in the success of schools is decentralized decision making. Principals should have autonomy over their budgets and hiring teachers. This local flexibility allows principals to tailor their schools to best fit the needs of their students.

At least 15 school districts and the state of Hawaii have moved to this system of student-based budgeting and autonomous schools. The results from districts using student-based funding are promising. For example, prior to 2008, less than half of Hartford, Connecticut's education money made it to the classroom. Now, under student-based budgeting over 70 percent makes it to the classroom. Hartford School District achieved this goal with a 20 percent reduction of central office expenses including the reduction of over 40 district-level positions.

In 2008, Baltimore City Schools faced a $76.9 million budget shortfall. Superintendent Andres Alonso instituted student-based budgeting. He identified $165 million in budget cuts at the central office to eliminate the deficit and redistributed approximately $88 million in central office funds to the schools. By the 2010 school year, Alonso cut 489 non-essential teaching jobs from the central office, redirecting 80 percent of the district's operating budget to individual schools.

In California student-based budgeting has successfully offered every public school autonomy in two urban school districts. San Francisco changed to a student-based budgeting system in 2002 and the district has outperformed the comparable large school districts on the California Standards Tests for seven straight years. A greater percentage of San Francisco Unified students graduate from high school than almost any other large urban public school system in the country. And across the Bay, Oakland has produced the largest four-year gain among large urban districts on California's standardized tests since implementing a form of student-based budgeting in 2004.

The New York City Model

One case that is particularly relevant is the New York City example because it shows that it is possible to offer schools charter-like autonomy and take student-based budgeting to scale and demonstrates that this could be taken to scale across an entire state like Arizona.

Beginning in 2007-08, the New York City Department of Education began empowering all public schools, so that educational decisions happen in schools, where the people closest to students decide what will help students succeed. In New York, public school empowerment is built on the Empowerment Schools initiative pilot. In the 2006-07 school year, 332 New York City public schools took on greater decision-making power and resources in exchange for accepting accountability for results. These "Empowerment Schools" worked under performance agreements, committing to high levels of student achievement with clear consequences for failure. In exchange for this commitment, principals and their teams had the freedom to design educational strategies tailored to their students. These schools have hand-picked their support teams, hired additional teachers, implemented creative schedules, designed tailored assessments, invested in professional development, and purchased both internal and external services that meet their needs and their students' needs. Initial results are promising, with more than 85 percent of empowerment schools meeting the performance targets set by the Department of Education.

Following on that success, beginning in the 2007-08 school year, all New York public schools were empowered, giving their principals and their teams broader discretion over allocating resources, choosing their staffs and creating programming for their students.

[illegible] -based budgeting [illegible]
principles:

- School budgeting should fund students fairly and adequately, while preserving stability at all schools.
- Different students have different educational needs, and funding levels should reflect those needs as well as possible.
- School leaders, not central offices, are best positioned to decide how to improve achievement.
- School budgets should be as transparent as possible so that funding decisions are visible for all to see and evaluate.

In keeping with these principles:

- Money follows each student to the public school that he or she attends.
- Each student receives funding based on grade level.
- Students also may receive additional dollars based on need.
- Principals have greater flexibility about how to spend money on teachers and other investments$ along with greater responsibility for dollars and greater accountability for results.
- Key funding decisions are based on clear, public criteria.

Because student-based budgeting generally includes every public school in a school district, education corporation, or geographic area, it works to change the culture of the public school system. Attention becomes focused on student outcomes because families have legitimate choices within the public school system. If an assigned, or neighborhood, school is not meeting a child's needs, that child can move to another school within the district and take their funding with them.

Every school in a state or a district becomes a school of choice and the funding system gives individuals, particularly school administrators, the autonomy to make local decisions. This autonomy is granted based on the contractual obligation that principals will meet state and district standards for student performance. It is a system-wide reform that allows parents the right of exit to the best performing schools and gives every school an incentive to change practices to attract and retain families from their communities.

COPE recommends the following:

- The state level funding formula should be changed so that the money follows the child to the school level rather than the district level.
- The state should implement school level budgets so that school funding is transparent and equitable at the school level rather than the district level.
- Schools should receive revenue in the same way that the district receives revenue, on a per-pupil basis reflecting the enrollment at a school and the individual characteristics of students at each school.
- Principals must be able to make decisions about how to spend resources in terms of [illegible]

autonomy that principal has over designing the school to meet the needs of the students in the school. The state should require districts to place the majority of their operating budget, between 70 and 90 percent, into a school-level allocation, to offer principals more autonomy and more real decision-making power.

Recommendation 6: State Personnel Reform

Summary: *In order to promote public confidence in government, governmental integrity, and the efficient delivery of services to its citizens, a comprehensive reform of the personnel system within the Executive Branch is recommended. This reform will provide a system that attracts and retains the best employees, increases the accountability of the workforce, and improves the efficiency of managing the workforce.*

Discussion: It is expected that comprehensive reform within the Executive Branch will create a personnel system which will attract and retain the best employees, increase the accountability of the workforce, provide agencies with flexibility, improve the consistency of personnel administration, improve the efficiency of managing the workforce, and significantly minimize liability to the State.

Background [illegible] several different personnel systems. The ADOA Personnel System is the largest personnel system, encompassing nearly 100 agencies and accounting for about 33,000 employees. The [illegible] employees have the protections of the state laws and personnel rules, which govern and regulate several key human resources practices, including hiring, probationary periods, benefits, compensation, performance management, discipline, and dismissals.

Although the state laws and personnel rules provide a foundation for consistency and protections for covered employees, [illegible] particular, disciplining and separating a poor performing employee can be complicated, costly and time consuming. Even when supervisors properly manage through the process and ultimately dismiss an employee for just cause, covered employees have the right to appeal the decision and an independent body will determine if the dismissal was the appropriate level of discipline. Sometimes even if there is no dispute that an employee violated standards of conduct, they may be returned to work with back pay and benefits because the discipline was determined to be too severe or they can be returned to work due to a technicality. This can be illustrated in the following two examples:

- One state agency tried for more than six years to dismiss an employee for violating the [illegible] employee was provided with a notice of charges, given a termination letter and was separated from the State. The employee appealed to the State Personnel Board. The [illegible] Nevertheless, the employee brought the case back to the Personnel Board two more times; however the Personnel Board upheld the dismissal. The employee subsequently appealed to the County Superior Court which also upheld the dismissal. However, when [illegible] due process rights were [illegible] the wrong section of the personnel code had been cited in the original termination letter.

The State was required to reinstate the employee with full back pay. The individual was brought back into service as a full-time employee. Shortly thereafter, the employee was dismissed again, this time with much more documentation on the part of the agency. The employee again took the case to the Personnel Board and then back to the courts. The Superior Court again required the employee be reinstated, including back pay and benefits. Apparently the judgment overturning the dismissal disallowed the agency from firing the employee for the same reason. The State has spent in excess of $320,000 and immeasurable intangible costs of staff time and lost productivity dealing with this issue. The employee currently remains employed by the agency.

- Another case involved a high-profile incident and the death of an inmate. Following the investigation, it was found that certain employees did not follow proper policy. Numerous employees were suspended, demoted, or dismissed for the incident. Three employees appealed to the Personnel Board. Although the Board did not dispute that there was cause for discipline, the board modified the agency's actions in all three cases. Two dismissals and one demotion were all reduced to 160-hour suspensions, including restoring all back pay and benefits. Furthermore, the agency was directed to return the employees to their same positions. The costs to the state included restoring the [illegible] [illegible] [illegible]ng unemployment insurance payments the employees had received while on unemployment, recalculating federal and state tax liability, and immeasurable staff time associated with these calculations and recordkeeping. The direct costs alone added up to nearly $75,000, which does not account for lost productivity. Similar to the previous example, the employees that should have been separated remain employed by the State.

Most of the public employees in the ADOA personnel system are conscientious public servants. However, Arizona is saddled with an overly bureaucratic State personnel system that does little to reward high performing employees but provides enormous protections for underperforming employees.

The scenarios above are illustrations of the difficulty in managing, disciplining, and separating poor performing employees. Over time, the protections afforded to covered employees have often been perceived as so burdensome that they deter agency management from actively and timely addressing employee issues and, when necessary, disciplining employees.

In addition, there are other components of the personnel system that encourage inefficiency. For example, the specific procedures for applicant recruitment, evaluation, selection and interviewing for covered positions require a lengthy and time consuming process. Often by the time an agency has selected their top candidate, received all of the necessary approvals, and made a job offer, the candidate is no longer available having found other employment opportunities. Similarly, the classification and compensation rules prescribe in great detail the limitations and conditions that must be met before adjustments in salary can be provided. This rigid and inflexible system restricts the opportunity to reward top performing employees and makes it difficult for the State to retain top talent.

These conditions are not unique to Arizona, and were the key impetus that prompted Georgia and Florida to implement personnel reform in 1996 and 2001 respectively. When introducing personnel reform in 1996, the Governor of Georgia described the Merit System that had been established more than 50 years ago as a solution at the time but a problem five decades later. He went on to say that despite its name, the merit system is not about merit. It offers no reward to good workers; it only provides cover for bad workers. Both of these states significantly overhauled their personnel systems resulting in an increase in the percent of at will uncovered employees, a streamlined hiring process, a more flexible compensation system (i.e. rewarding top performers), and a streamlined discipline and separation process.

Implementation – A comprehensive legislative package is being prepared to modify applicable personnel statutes for agencies within the Executive Branch. These changes will modify the State's merit system protections, streamline the personnel processes involved with hiring, managing, and separating employees, and increase other efficiencies in the administration of the personnel

Recommendation 7: State Procurement Reform

Summary: *The procurement cod[illegible] that may lead to the development or invention of innovative goods or services that are specific to an [illegible] rules associated with procurement, the more the State will be able to tailor and customize solicitations and contracts to buy the desired service at the right price.*

Discussion: The procurement code is a long standing set of statues (since 1984) and has associated administrative rules. This document is limited to a general discussion of concepts and does not propose specific revisions to the language of the statutes and administrative rules.

Two of the primary goals of the procurement code are to create a purchasing process under which the State can get the best value for its dollar while also promoting free and fair [illegible] achieve those goals and the flexibility to craft innovative procurements that differ from the typical ways of doing business.

[illegible] from which State agencies must buy, may on occasion prevent State agencies from purchasing the best goods or services at the best prices. Second, the solicitation process[illegible] from drafting requests for proposals to evaluating and selecting bidders[illegible] often does not generate sufficient competition that creates sufficient price and/or quality competition to create the best contracts. The State is sometimes unable to purchase the best goods or services at the best prices because of existing procurement contracts. In those situations, obstacles may include:

- Insufficient competition under the initial solicitation;
- Excessive passage of time after award during which new competitors have entered the field, prices have changed favorably after contract award, and/or innovation has led to new competing goods or services that are not included on the State contract; and
- [illegible] se prices to a level that is not competitive in the market.

Insufficient competition can result from many problems, including inaccurately drafted bid specifications, poor evaluation criteria, ineffective notice to the field of potential competitors, inaccurate evaluations, and evaluators without sufficient expertise. This is why the [illegible] tate agencies on how to properly identify and analyze contracting opportunities and develop innovative, robust procurements that match the right service with the right contract at the right [illegible] whether a dedicated entity or formalized team of current staff specialists[illegible] would help agencies avoid launching procurements that fail to attract competition and ensure that procurements are set up from the very beginning to maximize value for money and ensure that the State achieves its policy and operational goals.

Other possible approaches would be to have procurement officials work with industry experts in connection with the drafting of solicitations and the evaluation of bids and proposals, with appropriate safeguards and firewalls to avoid conflicts of interest. In addition, procurement officials must endeavor to widely circulate notice of each solicitation for a sufficient time period of time by all reasonable means available including specific notifications to known industry participants, print, visual media, internet, etc. Procurement officials give notice now, but a more flexible authority with respect to the various means of giving notice to the public and potential service vendors would help make notifications more effective.

The State recently added reverse auctions as one of its procurement methods. That process, however, is not used as widely as it could be. The State should work to try to use that process more widely as it may be an effective way to increase competition among vendors for certain types of goods and services.

Excessive passage of time can be caused by having too long a period for the initial term of the contract, routinely renewing contracts with rebidding, and/or routinely permitting vendors to raise prices. Under the current procurement code, the State is permitted to let contracts for up to 5 years without special permission. In and of itself, this is fine; in some cases—and for certain types of services—having the explicit authority to routinely procure longer-term contracts (10-15 years, for instance) would be warranted. In fact, many cutting-edge procurements in states today exceed terms of five years. The issue is less one of arbitrary limits on contract length, but rather an issue of matching the right contract term to the right project to best achieve the State's overall goals.

What should be avoided are mismatches between the project and the optimal contract term. For example, in some cases the State tries to keep the contract terms to a year followed by renewals, and renewals are often granted. This can invite complacency, when perhaps a longer-term contract with a fixed annual price defined at the outset would have been a better fit. Further, procurements are expensive and labor intensive, so the tendency to allow renewals is understandable. However, if increasing competition is an objective and complacency is to be avoided, renewals should be an exception from the normal process. For that reason, it would be preferable to get the contract term right from the beginning with clear plans to rebid it at the end of the term, unless some compelling, overriding justification based on the pricing, quality and selection of products available in the market would justify permitting a renewal. Robust competition should be the central aim of procurement.

Price escalator provisions should also be carefully considered before use, and aside from routine COLA provisions common in many service contracts (annualized cost of living adjustments to adjust for inflation, if any occurs), escalation provisions should be the exception, not automatic. Each vendor escalation proposal should be based on strong and demonstrable justification for the price increase including prices currently available from competitors in the market. Moreover, each request should be reviewed and approved by a person with expertise in the relevant industry before one is granted.

State agencies are often able to find better prices, goods or services than are offered on State contract. However, many agencies do not have delegated authority from the Department of Administration (ADOA) at sufficient levels that would allow them to purchase goods or services separately. Consequently, the agencies are required to purchase off of State contracts even when they could create a contract on terms that are more advantageous to the State. To address this situation, ADOA should more readily delegate to agencies with competent purchasing expertise unlimited purchasing authority so that those agencies would be able to make purchases outside of existing ADOA State contracts when they are able to find goods or services with better pricing, superior and demonstrable quality, and/or a better product or service than is available on the ADOA established contract.

These recommendations reflect a simple idea often ignored in government: cost-efficient, high performing organizations do not become that way by paying more than necessary for goods and services, and allowing the public sector to do so represents the poor stewardship of taxpayer dollars and prevents the state from maximizing the public benefit associated with public expenditures.

Hence, as a guiding principle, COPE believes that all government functions that are not inherently governmental should be subject to competition, whether that occur through competitive bidding, public-private (managed) competition, the use of internal markets (e.g. interagency purchasing agreements, etc.) or other mechanisms.

To this end, COPE recommends that state government adopt a purchasing philosophy that agencies will purchase goods and services from the best provider, whether that be from a private firm (for-profit or nonprofit) under a new contract, from an existing vendor via purchases off an existing contract, or via a new purchase agreement with another state agency. Making multiple sourcing options available to government purchasing officials as a routine part of decision making would be a strong foundation for a nimble procurement policy designed to improve quality and drive down costs to achieve the best value for taxpayers.

Assuming that processes to ensure proper competitive neutrality and a level playing field are designed and implemented, COPE sees no reason that state agencies should be excluded from participating in competitions for competitively bid services, so long as they first create a separate profit center or employee business unit for the agency department or sub-unit bidding to provide the service. In fact, this type of approach dovetails with the state's continued efforts to advance internal shared services arrangements and can help guide these efforts further. For example, COPE recommends that the state utilize internal markets that allow departments to bid to provide shared services (e.g., legal, accounting, human resources, payroll, etc.), requiring them to operate on a contractual basis. After all, the same guiding principle— that competition is necessary to drive the best quality, innovation, and price for goods and services purchased—should apply whether a shared service provider is a public or private sector entity.

Recommendation 8: Implement an Activity-Based Costing Pilot Project

Summary: *COPE recommends that the Arizona Legislature adopt a statute setting forth an Activity-Based Costing pilot program to assess the full costs and potential efficiency/privatization opportunities in the following areas: vehicle fleet operations, maintenance and management; printing and document management; building/facility operations and maintenance; and mail services.*

Discussion: In addition to the obstacles to innovative procurements discussed in the previous section, another major obstacle to maximizing the value of state procurements—as well as maximizing efficient public sector management overall—is the lack of robust tools for *activity-based costing*.

While a routine practice in private industry, measuring the true per-unit cost of any activity in government is difficult, if not impossible, because the traditional budgeting and financial management process is not set up to capture or quantify the full costs of delivering a service or conducting a public sector activity. For example, some of an agency's overhead costs may be covered by a separate agency's budget or budget line item (e.g., pensions, energy, legal, information technology, payroll, human resources, etc.), leading to a tendency to underestimate the full costs of public sector operation of a given service or activity.

Hence, public sector managers often lack the information they need to make important decisions on the most effective and efficient means of delivering state services—such as whether to provide a service in-house or through a private contractor, whether the cost of a service outweighs the benefits, or whether a service is working at all. As a result, a seemingly simple question like, "How much does it cost the state to change a light bulb?" often cannot be accurately or completely answered in government accounting systems because they are not designed to answer it.

If the goal is to maximize government performance, COPE believes that a more robust approach to cost accounting is needed. *Activity-based costing* (ABC) is a method of cost analysis designed to identify and quantify all of the various direct and indirect cost components of a certain activity, not just the major factors like labor, fringe benefits and supplies. As used in private enterprise, ABC accounts for the full range of costs involved in a project (e.g., capital, facility, overhead, risk management, etc.), attempting to measure outcomes per dollar spent. This gives managers a powerful foundation for performance assessment and enables them to make smarter decisions about the use of scarce taxpayer resources.

ABC is not new to government; in fact, it has been used by various federal, state and local governments and agencies to lower costs, re-engineer services and make better spending decisions. For example, current New York City Deputy Mayor Steven Goldsmith implemented activity-based costing in various agencies during his two-term tenure as mayor of Indianapolis in the 1990s. Using ABC, city workers in Indianapolis reduced snow removal costs from $117/mile to $38/mile and cut the cost of highway crack sealing from $1,200/lane-mile to $737/lane-mile.

In examining potential state outsourcing and re-engineering opportunities, COPE was unable to acquire reliable, unable information on the internal costs of operation for a variety of commonly-outsourced administrative support services, including vehicle fleet operations and management, printing and document management, mail services and more. In some cases, this challenge arises from the dispersed nature of the current service; for example, despite some degree of centralization in the state's vehicle fleet operations, some agencies still maintain their own fleets. Without centralized accounting and management systems, evaluating the relative performance of various public-sector fleet operations on an apples-to-apples basis presents a significant challenge on its own, much less attempting to undertake a comparative analysis of what the private sector might provide.

This inability is not the fault of any agency, administrator or policymaker; rather, it is a systemic problem that is not uncommon at any level of government in any jurisdiction. However, COPE was unable to analyze whether or not privatization or other delivery strategies would be sensible for several key services, primarily due to this institutional limitation.

Based on the practices and experiences of other states, COPE believes that there are several services that may be viable privatization candidates, but for which a robust ABC analysis (at an enterprise level) would be a necessary precursor to a privatization business case evaluation or feasibility assessment.

Texas offers a useful example of how a state initiated the use of ABC in a way that merits replication in Arizona. In 1999, the Texas Legislature passed legislation establishing an ABC pilot project across seven different state agencies (General Services Commission, Texas Department of Transportation, Texas Comptroller of Public Accounts, Texas Water Development Board, Texas Workforce Commission, Texas Department of Economic Development and Texas Cosmetology Commission). The goal was to determine the full costs of delivering each service, identify non-productive activities and savings opportunities, and evaluate the merits of adopting ABC throughout state government as a management and cost accounting tool.

The state Comptroller administered the project with the assistance of an ABC project management team with representatives from the Governor's budget office, the state auditor and Legislative Budget Board. The team hired a consultant that specialized in training employees in ABC techniques and conducting ABC work sessions. The pilot covered 16 major programs/divisions spanning hundreds of business activities in the seven agencies.

According to the ABC management team's final report on the pilot, they were able to identify a number of useful improvements to current processes, finding an estimated $9 million in potential cost savings on a $68 million bundle of services, or 13%.[2] Among the report's findings:

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[2] Texas Comptroller of Public Accounts, *Report to Governor Rick Perry and the 77th Texas Legislature on the Texas Activity-Based Costing and Management Pilot Project*, 2001, http://www.window.state.tx.us/specialrpt/abc/

- The success of ABC 4cepends mostly upon the willingness of participants to explore the strengths and weaknesses of their current processes; the availability of consultants or in-house experts to coach work teams in the [ABC] process; the availability of adequate information regarding expenditures and resources; and the leadership needed to execute any worthwhile ideas generated through the process.6
- Though initial ABC studies an upfront investment of time and resources, 4the net return on such an investment in Texas could be considerable.6
- The state would likely realize the greatest impact per dollar spent on ABC if it was applied in a targeted fashion towards specific services, as opposed to requiring its widespread application across all government activities.
- ABC can be a powerful tool to advance agency self-funding. Many state agencies are required by law to recover the costs of their services (e.g., permitting, licensing, etc.), yet may lack the analytic tools and expertise to determine if current fee levels are sufficient to cover costs. ABC 4can provide the data they need to set fees at a level sufficient to recover costs.6
- An ABC pilot project is not a panacea and would only be the beginning of a more detailed process that agencies must undertake to realize results and cost savings. As such, the ultimate success of ABC will depend on how agencies and policymakers use the study results.

Overall, the Texas ABC pilot project found that:

> *State agencies should consider using an ABC study to estimate the true cost of any activities under review. This will enable them to pursue reengineering opportunities and benchmark their operations against other public and private organizations.*

COPE believes that the targeted use of ABC would be a powerful tool to drive down costs and improve performance management. Accordingly, COPE recommends that the Arizona Legislature adopt a statute setting forth an ABC pilot program covering these and potentially other services, following a similar approach to that used in Texas:

- vehicle fleet operations, maintenance and management;
- printing and document management;
- building/facility operations and maintenance; and
- mail services.

Recommendation 9: Automatic Employment Verification

Summary: *COPE recommends that the state's employment verification process be automated and outsourced.*

Discussion: On June 18, 2010, the State of Arizona implemented an automated employment and income verification system, making it faster and more convenient for verifiers to obtain this information. All verification requests are now handled by phone or internet through the State's vendor, The Work Number (TALX).

The Work Number is a fully-automated, secured employment verification service, which allows organizations to retrieve employment verification and/or payroll verification in minutes, 24 hours a day and seven days a week.

State agency human resources and payroll professionals handle approximately 14,000 requests a month for verification of an employee's employment or income. These requests are received from both private and public sector organizations seeking information to support an employee's application for a loan, new apartment, government assistance, etc. The verification of employee information is a manual, labor intensive process. It is estimated that state personnel spend over 3,500 man hours each year processing these requests.

There are three benefits of the automated, outsourced solution:

1. Reduced workload and increased productivity for state employees that handle verifications: It is estimated over 3,500 hours of state staff time is spent annually on verifications. Using a $13 per verification industry average, those verifications cost the state over $185,000 annually. When fully deployed, it is anticipated the solution will reduce current staff workload 75%, resulting in an annual productivity value of $140,000.

2. Reduced risk of unauthorized disclosures: The TALX solution requires any organization requesting employee information to have a legitimate purpose for the request. An organizational background check is performed and specific purposes for each request must be declared before TALX will provide verification information.

3. Reduced costs for AHCCCS and DES for social services verifications: AHCCCS and DES have contracted with TALX for some time to secure on-line income verification information for people applying for social service program assistance. With the addition of state employee data to the TALX system, TALX reduced AHCCCS and DES contract costs approximately $25,000 per year.

Recommendation 10: Directed Medical Care

Summary: *Allow the State and its [illegible] compensation. The Department of Administration estimates that this change could yield savings of up to $1,000,000.*

Discussion: [illegible] employees. A.R.S. 23-1070 permits a private employer who self-[illegible] compensation to create a medical network to treat their injured workers. Self-insured businesses, such as APS and SRP, direct injured workers to such networks allowing better management over the quality of care and cost of providing treatment. The practice of directing medical care is strictly overseen by the Industrial Commission of Arizona by statue and rule.

- While private self-insured employers have this authority, A.R.S. 23-1070 specifically excludes the state and political subdivisions (many of whom self-insure) from directing medical care.
- If 23-1070 is amended to allow the State to direct medical care, State Risk Management will create a network of occupational medicine specialists and monitor the quality of care and the cost savings from the contracted network.
- Primary care physicians without an occupational medicine or sports medicine philosophy often allow subjective complaints to become part of the treatment approach, without objective findings of any kind, ignoring evidence based treatment protocols. They also do not fully grasp the return to work with restrictions process and do not have the same level of employer trust that occupational medicine specialists do.
- Women injured on the job often see their primary care physician, frequently an OBGYN, who will have to refer them out to a specialist, resulting in a delay in treatment.
- On the job injuries caused by negligent third parties often result in attorneys directing injured employees to chiropractors and other medical providers, whose incentive is to please the attorney by increasing the medical costs of the third party claim.
- Without the ability to direct medical care, the state is limited in its ability to control physicians who overprescribe medicine, ignore evidence based medicine guidelines and too frequently perform surgery.
- Support for allowing public entities to direct medical care will come from the self-insured public entities struggling to control costs. Specifically, support is assured from Maricopa County, Arizona County Insurance Pool and their eleven counties, the Arizona School Risk Retention Trust, and the Arizona Self Insurers Association (ASIA).
- Based on past efforts to allow public entities to direct medical care, additional support would likely come from the League of Cities and Towns, Arizona Association of Counties, and individual cities, City of Glendale, City of Mesa and others.
- If the state is allowed to implement such a program, Risk Management would contract with medical specialists with a focus on occupational medicine at rates below the Industrial Commission fee schedule.
- Perhaps more important than fee schedule savings are savings achieved by providing treatment through quality medical specialists who demonstrate an ability to reduce time

lost from work and potentially more successful outcomes. Statistics show the longer an employee is off work, the greater the claim cost and the risk of permanent disability and loss of income.

- Lower costs and reduction in days lost from work due to on the job injuries, would improve the efficiency of all state agencies.
- Based on the experience of private self-insured employers, State Risk Management expects to achieve up to $1 million in annual savings. The Arizona County Insurance [illegible] save approximately $250,000 per year.
- The opportunity to direct care would provide a valuable tool to the state and local governments as they work to balance their respective budgets.

Action Needed %Change A.R.S. §23-170

Recommendation 11: Human Resources Shared Services

Summary: *COPE recommends the state centralize routine HRIS update processing in ADOA HRD.*

Discussion: Over the years, selected update actions have been centralized at ADOA HRD (interagency transfers and position changes). Other update actions are performed online by employees themselves (e.g. address changes and tax withholding updates) through the HRIS self-service system "YES". These enhancements have been undertaken to improve efficiency, reduce data errors, minimize training requirements, and improve data timeliness. This proposal will continue that trend by centralizing additional update actions to achieve the same results.

To further increase efficiencies, the proposal will also provide automation support to some of the routine transaction update processes. Current processes are paper-driven and update requests are created and manually routed within the agency for appropriate approval. Once approvals have been secured, the documents are sent to agency human resources staff for analysis and entry. The recommendation will automate the online entry of update requests, provide electronic approval routing, and automatically update HRIS data where possible.

Human Resources staff process approximately 53,000 updates a year to the Human Resources Information Solution (HRIS) to maintain accurate employee records. These updates are required to ensure employees are paid accurately, make job changes, update personal information, etc. The updates are processed by 156 human resources staff decentralized throughout the agencies. This distribution of part-time work across a large number of staff presents a variety of problems:

1. Inefficiencies: Most agency staff only process these updates on a part-time and sometimes infrequent basis. Therefore, they often are not as proficient as staff that are well trained and consistently processing these actions.
2. Data entry errors: Agency staff that are processing detailed information in the HRIS system on an infrequent basis, may not be consistent and accurate. Centralized ADOA human resources staff process 1,200 correction actions each year to recover from agency errors.
3. Training: Agency staff turnover and changes to personnel laws, rules, and practices require centralized ADOA human resources staff to develop and provide continuing training to agency staff.
4. Data timeliness: Agency staff must often fit these HRIS update tasks in and around their other work responsibilities. Some HRIS updates are delayed or not processed in a timely manner. These delays can in turn trigger additional work to correct erroneous records, and may result in inaccurate reporting, and could potentially lead to payroll errors that require significant additional work to correct.

Industry reports indicate centralizing such routine employee update actions will result in 16% to 40% efficiency savings. The State of Michigan recently centralized similar actions and experienced a 28% reduction in agency human resources staffing. Given the recent centralization

of a portion of HRIS transactions, it is conservatively estimated that Arizona can achieve 16% agency savings. The ADOA central human resources unit will add 6 FTEs to process the centralized updates. Agencies will concurrently experience a reduction in workload equivalent to 25 FTEs, resulting in a net reduction to the state of 19 FTEs. The net annual savings from implementation of this proposal will be $893,000.
Reduced data entry errors, reduced training expenses, and more timely data entry actions will add to the fiscal benefits.

Implementation - There will be two primary implementation challenges: 1) Agency acceptance of staffing reductions, and 2) effective communications to employees and agency staff on the new business process.

Action Needed – Budget allocation and HR Policy changes.

Recommendation 12: Adjust Deductibles for Property and Liability Claims

Summary: *COPE recommends that the state implement a deductible of $10,000 for all property claims and a possible $10,000 deductible for liability claims that exceed $250,000.*

Discussion: State Risk Management would save approximately $4.5 million annually from not having to pay approximately 5,600 claims. The Savings could be passed on to State Agencies who in turn may repair or replace the item.

- Savings will result from any business decision an agency makes to not repair or replace.
- Savings from a reduction of Morale hazards.
- State Risk Management would save approximately $200,000 from internal operational efficiencies
- State Risk Management would save approximately $175,000 in claim related expenditures by eliminating two contracted employees.

This analysis focuses on a deductible for property insurance claims. An across-the-board deductible for liability claims does not make sense for two reasons:

- Liability claim payments are made to third parties and legally must be paid. We cannot rely on agencies paying their share of the deductible.
- Liability claims contain legal complexities involving determination of negligence, statutes, common law, etc.; and in many cases, they can cost fairly substantial sums of [illegible] handle the case from the beginning to minimize legal mistakes that could be more costly later on.

ADOA has statutory authority to impose a property deductible of up to $10,000 via ARS §41-621E, as follows:

> *[illegible] agencies, boards and commissions a deductible of not more than ten thousand dollars per loss that arises out of a property, liability or workers' compensation loss pursuant to this subsection. Deductible amounts established by the director shall be subject to annual review by the joint legislative budget committee.*

The Arizona Administrative Code mentions deductibles in two sections:

- R2-10-108 %In short, this rule applies a deductible of $10,000 to all claims greater than $150,000, unless the agency submits a loss prevention plan approved by Risk Management. This is not an across-the-board deductible. Risk Management has used the deductible program as described by this code as an incentive for state agencies to provide an adequate mitigation plan for large civil liability settlements or judgments. A deductible under this section of the AAC is rare.

- R2-10-106 %This is the only section of the AAC containing a specific deductible and excludes from Risk Management coverage all personal property claims less than $100.

Property deductibles are required by almost all property insurers. There are three main reasons property insurers require a deductible.

- Deductibles help to reduce moral hazard, (purposely causing losses to collect the insurance money). This hazard is probably non-existent in our agencies especially since employees do not personally gain from causing a property loss to occur.
- Deductibles also help to reduce morale hazard, which exists because the claimant may be indifferent about losses, and do little to prevent losses because of insurance. Also, as some would consider in health insurance, a low or no deductible will cause over use
- Since agencies would be responsible for paying the deductible, this should increase awareness and promote loss prevention at the agencies. Also, agencies will be empowered to make good business decisions, (e.g., does damaged property really need to be replaced?). As long as there is a funding mechanism in place (e.g. Risk Management), to pay for these losses, the answer will almost always be yes.
- Deductibles allow the insurance company to be more efficient. Processing claims requires a minimum cost that does not exactly track with the amount of the claim. The expense of processing a small claim constitutes a large percentage of the claim itself. Thus, deductibles are an effective way to keep premiums affordable. An example of inefficient processing of small state property claims is as follows: An agency has a laptop stolen with a value of $200; someone in the agency must complete a Risk Management claim form, the form is deli—E cbuv b b o ,pd ' h. z . 'b9pz ,fi. 'b. Eb a. ' distributed to the clerical person, the clerical person opens the claim in the Risk Information System and assigns an adjuster, the adjuster performs due-diligence and —f'. pba. i f ,z ba. cw'pb E9pp"l. rvisor reviews the claim, the adjuster approves payment, prepares a payment request, forwards the payment request to accounting, accounting completes a transfer form, enters the form into the financial system, sends the transfer form to the appropriate agency to complete their section, the agency then sends the form to the GAO, who must then transfer $200 from State Risk Management to the agency. The agency then procures the laptop. If a $10,000 deductible applied, then only the last step (procuring the item) would be performed. A large deductible would also allow State Risk Management to realign its already smaller staff to concentrate on preventing property losses from occurring and better manage large liability and property claims that have occurred

No recent discussions have been held with state agencies on this topic. Agencies may have different ideas on this topic. A property deductible increase from the current $100 to a proposed $500 was discussed with state agencies eight to ten years ago, and many agencies were adamantly opposed.

- This analysis contemplates a deductible of $10,000. Different scenarios could also be considered, such as a $5,000 deductible, a $1,000 deductible increasing by $1,000 annually until a certain level is achieved, etc.

- Agencies will still be required to do some upfront investigation (e.g. take photos) when there is an accident involving a state vehicle (subject to the deductible) and a third party vehicle (not subject to the deductible).
- Business decisions such as not repairing or replacing a cracked auto windshield may become a safety issue.

Other Deductible Considerations:

A consideration of charging agencies a $10,000 for a large liability loss of over $250,000 may make sense. There are approximately eight claims per year that will fit into this category. Similar to a property deductible it will increase awareness and promote loss prevention at the agencies.

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Recommendation 13: Privatize Department of Environmental Quality Permit Processing Functions

Summary: *COPE recommends the privatization of ADEQ permit processing functions.*

Discussion: Like many state agencies in Arizona, ADEQ is considering new ways to lower costs and reduce overhead spending. Due to the downsizing process, workers are being asked to take on new responsibilities that they have little experience completing. When it comes to processing permits, managers and other staff are not trained permit writers. This creates inefficiencies and unnecessary spending. In addition, some months of the year ADEQ receives an influx of permit requests and is unequipped to handle the increase in caseloads. Hiring more workers to solve this problem simultaneously increases ADEQ's fixed costs and overhead.

ADEQ's primary concern is predicting future volumes of new permits. Over or underestimating permit volumes can easily cause staffing problems and represents a major risk for ADEQ. Instead, it is recommended that ADEQ use flexible contracts with vendors that can be hired on a temporary, as-needed basis to avoid this problem. It is important that ADEQ continue to maintain a small core of employees and use consultants to cover new and speculative work. This model is recommended for all state agencies facing similar permit processing circumstances.

ADEQ's hourly rate is significantly higher than the hourly rate proposed by private contractors. In addition, each ADEQ employee costs $29,000 in indirect overhead. Privatizing permit processors on an hourly basis will reduce ADEQ's costs and allow workers to focus on other tasks, thereby increasing worker productivity. ADEQ will also avoid poor morale among workers who would otherwise be subjected to rapid changes in hiring and firing. Permits will be processed by trained, experienced permit writers which may lead to an expedited permit process. Most notably, by starting the privatization process now, ADEQ will be prepared when Arizona's economy rebounds from the economic downturn and the demand for permits expands.

Contract rates are currently low and affordable. However unlikely, it is possible that these rates may increase.

Recommendation 14: Convert Department of Insurance to Self-funded Agency

Summary: *COPE recommends that policymakers convert the Department of Insurance into a self-funded agency through assessments and fees on the insurance industry to generate over $5 million in savings.*

Discussion: The Department of Insurance regulates the insurance industry largely to the industry's benefit, creating assurance for customers of insurance companies that they will be treated fairly and, to some extent, limiting competition for incumbent insurance companies in the state. The department has presented a plan to become a self-funded agency and should be allowed to do so. The department claims that 33 state insurance departments have dedicated funds - fees and fines retained by the departments. The department also states that $3.5 million would be turned into the state's General Fund each year in excess fees and fines as compared to current operating costs.

The risk associated with allowing a regulatory agency that collects fees and fines to be self-funded is that it could lead to excessively zealous rule enforcement and perhaps even outright abuse. The classic example is a self-funded police department setting up speed traps for the sake of funding. Checks and balances will have to be implemented to guard against this problem

The department recommends four changes, two involving the creation of new dedicated funds, one requiring excess balances to be turned into the General Fund and one allowing the department to set fees and fines to allow annual variations in revenues of 95% to 110%. There should probably be an oversight board instituted as well in order to make sure the department does not abuse its new authority.

Recommendation 15: Close Revenue Offices and Expand Electronic Tax Filing/Payment Options

Summary: *COPE supports the Department of Revenue's recommendation to close its offices in the East Valley and Tucson and offering electronic filing/payment options to taxpayers who do not wish to travel to the Phoenix office.*

Discussion: It may be possible to set up kiosks and/or electronic payment/filing stations in Tucson and the East Valley.

Recommendation 16: Transfer or Merge Bingo Administration and Tobacco Enforcement to another agency

Summary: *Transfer the functions of Bingo Administration and Tobacco Enforcement to another agency to focus on more revenue generating core functions.*

Discussion: Bingo administration may fit more appropriately within another department in state government. The Department's role has been limited to processing bingo returns, issuing licenses, distributing revenues and answering questions. This is a small function, involving very little staff time, but taking focus away from more revenue generating core functions.

Transfer tobacco enforcement should also be transferred to another department in state government. Tobacco enforcement processes involve police work and are more similar to liquor enforcement than to business/personal tax enforcement, which is primarily an accounting and legal function.

Appendix

ADOA/GSD Status Report on COPE Recommendations for Asset Management

Surplus Searchable Data Base Update:
ADOA has deployed a searchable surplus property data base on the Surplus Property Section Web Site (http://www.azdoa.gov/agencies/msd/surplus_property/default.asp). The web search pulls data directly from the Surplus Property Inventory System and returns queries in a table format. Searches are broken down by commodity and can be searched by commodity group and sub group. If an entity is interested in an item, an automated information request email can be generated by the user to Surplus Property Section staff. The email will list the requester's contact information and notify staff of the organization's interest in the particular item of property. The system is also capable of displaying photos of the property. Further, Surplus Property has entered into an agreement to conduct on-line internet auctions for selected commodities with a national on-line auction company. This agreement will run through the end of the fiscal year (FY11). If this method proves successful the requirements for on-line auction services will be incorporated into the Statewide Auctioneering contract which is due for rebid at the beginning of FY12.

Surplus announced the Web search function in its quarterly "Surplus Shopper" which is mailed to the Customer base. It remains too early in the evolution of the process to evaluate what effect the search function is having, however, web statistics show a steady increase in page views beginning with over 280 in September 2010, (site launch) increasing to more than 750 in December 2010.

The majority of these page views are originating from the WWW.AZSurplus.gov redirect which is the external address advertised to customers. Surplus anticipates that over time, donees will increasingly use the functionality to "look" at what items are in stock rather than "call" or "visit". Early adopters are projected to be rural customers who can use the site to avoid travel to the State Surplus Offices at the Capitol Mall.

The next step for Surplus will be to deliver the "Surplus Shopper" electronically via email. The concept is to deliver an email to the customers which will direct them to the Surplus website where they can download a PDF version of the "Surplus Shopper." In addition to reducing printing and mailing costs, this initiative will drive customers to the web site and introduce more of them to the web search functionality, saving time and staff resources.

Surplus has been collecting email addresses for customers for some time and is close to being able to launch the email version of the "Surplus Shopper." The web site has already been modified to host the publication and the programming required to send the mass emails is nearly completed. Once the electronic version of the "Surplus Shopper" launches, Surplus anticipates a boost in traffic to the search page.

Status of ADOA undertaking an "inventory of inv. 'buE, p6buA,'cu'"b U a bs"', fc,'h pA i ,f,b,. p and other non-land, real property assets that the state owns:

ADOA consistently retains and annually maintains an inventory for its Building System of approximately 22 state agencies, boards, and commissions owning buildings and structural assets. The latest ADOA Building System inventory for the fiscal year ending June 30, 2010 (FY 2010) is available at:
http://www.gsd.azdoa.gov/assets/documents/FY10%20BIS%20Report.pdf

ADOA surveyed its Building System (excluding the State Land Department that maintains its own inventory of unimproved State Trust Land) to develop an inventory of *unimproved* real lEul. Ebl pp. bp 9pp"E—1u f its Building System concluded an inventory of less than a dozen parcels of unimproved real property owned by ADOA, Department of Economic Security (DES), and Department of Health Services. ADOA owns property in the Capitol Mall for future development, DES owns one parcel in the Capitol Mall and 6.6 acres in Flagstaff, and DHS owns property in Mesa. ADOA will retain and annually maintain a permanent inventory of its Building System's unimproved real property.

ADOA surveyed the Arizona Department of Transportation (ADOT) Building System to inventory its unimproved real property not designated as future transportation routes. The survey concluded an unidentified number parcels of unimproved property owned by ADOT. The inventory of unimproved ADOT property not designated as future transportation routes is currently for sale or lease and can be found at:
http://www.azdot.gov/highways/row/propmgmt/index.asp

Status of an inventory of all quit claim assets:
"b,f,7. cf. h f' f1p,pbuA,' f,7. 4AfuU ia Eb6luE bE 1,' hba. b. i a',i fc. b ,fuA lEui . pp,' i f'c, ' hb,z . AE z . ps 1Ua,i aba. v b b iy",E pE. flE ul . Ebl—, E,7u' 9piu"' b,. p tax liens. Further legal research is required to flesh out the State legal status as the owner of Certificates of Purchase and as the owner after a foreclosure. For example:

- m a bE ba. v b b 9pE,habp
- m a bE ba. v b b 9pf, s, f,b,. p
- Can the State retain the proceeds of tax lien property sales after tax liens are satisfied?

The foregoing is a non-exhaustive example of questions to resolve regarding State property acquired via county tax lien process.

Status of a space utilization report:
ADOA implemented an Occupancy Information Survey (OIS) on November 22, 2010 to document and evaluate space utilization in state-owned facilities. The survey components provide information regarding the amount of square feet allocated per workstation and staff position (FTE), the number of workstations, and the number of staff and/or contractors

occupying workstations. The information collected in this initial labor-intensive survey will establish a baseline of occupancy information. Going forward, ADOA will regularly collect the data and reconcile space utilization plans with the most current occupancy and space specific scenario information. Using the information gathered, ADOA can: 1) identify underused (or overused) facilities and plan for improved space utilization and effectiveness, 2) discover occupancy related fire and life safety issues, and 3) effectively plan capital construction, energy [illegible] The ADOA General Services Division (GSD) expects the balance of manual surveys is expected to be complete by January 28, 2011 and a complete space utilization report available to the [illegible] self-report OIS data to ADOA on a scheduled basis is currently in development and should be available by approximately April 1, 2011.

<u>Status of cell phone pooling:</u>
To begin pricing analysis, ADOA obtained detailed reports regarding lines of service and billed expenditures from the four wireless vendors under State contract. The search for lower pricing was helped by the availability of a cooperative contract through the Western States Contracting Alliance (WSCA), which had a very favorable contract with Verizon. ADOA then began the process of consolidating the minutes within ADOA as a pilot and example for other agencies on agency-wide minute pooling. While efficiencies and savings are still being realized through these efforts, average cell phone bills have been reduced from $45.08 in June, 2010 to $44.26 in December, 2010.

To ensure agencies understand the Verizon WSCA contract, 8 training sessions were held and attended by 22 agencies, including the majority of the larger agencies. Additional training sessions are being planned. ADOA is now in the process of implementing a program to consolidate accounts for savings via the pooling of minutes within other agencies, and the analysis of devices being used by the agencies.

Moving forward, ADOA has identified other methods to achieve savings. The following goals are:

- Reset plans to better reflect actual usage
- Reset voice & data plan to a voice or data only plan
- Limit higher minute plans to eligible staff
- Develop an Inappropriate Use Policy within the Telecommunications Program Office (TPO) to mainta[illegible]

DRAFT Minutes of the PUBLIC MEETING
of
THE ARIZONA OUTDOOR RECREATION COORDINATING COMMISSION (AORCC)
of
THE ARIZONA STATE PARKS BOARD

Tuesday, July 27, 2010, beginning at 10:00 a.m.
State Parks Board Room, 1300 W. Washington St., Phoenix, Arizona

A. CALL TO ORDER AND ROLL CALL @ 10:12am

B. INTRODUCTION OF MEMBERS AND STAFF

AORCC PRESENT: Jeff Bell, William Schwind, Renée Bahl, Karla Brady via teleconference

QUORUM IS PRESENT

ASP Staff Present: Dan Shein, Kent Ennis, Robert Baldwin

Public Present: Tom Bikauskas (BLM), Stacey Brechler-Knaggs & Martin Ince (City of Flagstaff via Teleconference)

C. ACTION ITEMS

1. Approval of Minutes from the April 12, 2010 Meeting.

Moved by Schwind, seconded by Bahl. No discussion. Motion carried unanimously.

2. Consider Approval of the Law Enforcement and Boating Safety Fund Allocation Percentage Changes Based on the 2009 Arizona Watercraft Survey and Recommend the Allocation of $500,000 to La Paz and Mohave Counties – Staff recommends that the AORCC approve the allocation percentages based on the 2009 Watercraft Survey to the eligible counties, and, that Mohave County be allocated $314,200 and La Paz County be allocated $185,800 from the LEBSF for fiscal year 2011.

Baldwin – Reviewed staff recommendation in AORCC packet.

Schwind moved to approve staff recommendation. Seconded by Brady.

Schwind – Observed that calculations appear logical.

Ennis – State Parks intends to process payment to the recipients in the fall, soon after approval by the Parks Board.

No other discussion. Motion carried unanimously.

3. Consider Staff Recommendation for Funding Recreational Trails Program Non-Motorized Projects - Staff recommends awarding $361,118 to five projects.

Baldwin – Reviewed staff recommendation in AORCC packet.

Schwind – What was the response from the two project sponsors that did not request funds?

Baldwin – Prescott did not feel they were prepared to move forward with the project or prepare their request in time for this meeting. I did not get a response from Avondale. They had indicated in a previous quarterly report that their matching funds had dried up. That project never really got started.

Bikauskas – I work for the Phoenix District Office. The Black Canyon Trail project began in 1959. Approving these funds will allow us to complete trail services in addition to the trail. The funds will help provide parking access and we're very happy they were made available to us.

Ince, Trails Planner – Thank you for this opportunity. Our goal is to provide a planning system for the Flagstaff Urban Trail System (FUTS). The system concept was developed 50 years ago and as of this summer we have surpassed 50 miles of trails.

Schwind moved to accept staff recommendation. Seconded by Bahl. No further discussion. Motion carried unanimously.

D. REPORTS - Commission and staff reports may be written or verbal.

1. **Parks Board Actions on AORCC Items –** At the April 21, 2001 meeting the Parks Board directed State Parks to use the 2010 LEBSF for agency operations in 2011.
2. **State Parks Budget Presentation and Operational Update**

Ennis – Presented high-level PowerPoint overview of the actions taken at the June Parks Board Meeting to identify the budget through 2013. A synopsis of those actions was provided in your packet.

Page 12 – FY2009-2011 Fund Sweeps. The predominant influence on our budget has been the sweeps and diversions from our operating funds to the State general fund. In 2009 that amounted to about $34.5 million. In 2010 that amount was almost $23 million and in 2011 another $14 million has been diverted. The legislature did approve a one-year use of the Law Enforcement and Boating Safety Fund (LEBSF) except for the $500,000 that you just approved to go to La Paz and Mohave Counties. Our annual allocation of $10 million from the Heritage Fund was not just suspended, but removed permanently. That will have a significant impact for not only State Parks, but also for our partners and stakeholders. Additionally, the sweep last year of $213,000 from our donations fund that received significant publicity was reversed. However, they did proceed to take another $19,000 from that fund this year.

Page 13 – Agency Revenues Comparisons FY2008 through FY2012. The figure in 2012 conservatively assumes the proposed legislation to transfer funds remaining in the Growing Smarter Land Acquisition fund will get passed in November. We certainly hope that doesn't happen. You can see from this chart that our resources have decreased for $75 million to about $25 million over these four years.

Page 14-15 – Key Operating Budget Assumptions for FY2011 Policy Issues.

Page 16. Key Operating Budget Assumption for FY2012-13. Eliminating the special line item for Kartchner Caverns does not increase the operating budget, but it gives us some needed flexibility and it we cumbersome to maintain an extra set of books for Kartchner.

Page 17 – Projected FY2011 Agency Annual Allocated Expenditures.

Page 18 – Projected FY2011 Operating Expenditures by Program. The Administration portion includes agency wide expenses like rent, risk insurance contributions, gas, etc.

Page 19 – Projected FY2011 Operating Expenditures by Category. Since almost 70% of the budget is comprised of Personnel Services (salaries) and Employee Related Expenses (benefits), when we have the budget reductions we have to eliminate position as a major response.

Page 20 – Board Action Items.

Schwind – The taxes for the LEBSF are going away?

Ennis – No, this was only a legislative action to allow us to use the funds for one year. This is only temporary relief for our budget challenges. We are not planning on getting this in the future.

Schwind – How lengthy are the terms of the agreements you have with the other partners? How many parks are operating under those agreements?

Ennis – They are all different. Some are for a couple of years, but most are only for one year. We are currently operating nine parks under those agreements and may add another one. These partners have expressed how important these parks are to their economies and we hope the will find a way to continue their support.

Schwind – Do the agreements only deal with operation or do the get into any capital improvements?

Ennis – Specifically, operations.

3. **New Communications Guidelines for State Parks Advisory Committees** – Staff will draft new guidelines to replace antiquated 1994 Memorandum of Understanding.

Shein – We are trying to streamline the processes that we use to communicate with all of our advisory committees and provide more timely information since things are changing so fast. We want to be sure any information that is intended for a specific committee gets shared with other committees that may have interest in it.

Bahl – Added that changes are needed since some of the funds that committees were established to oversee no longer exist.

E. **CALL TO THE PUBLIC -** During the public meeting; the Commission may afford any person the opportunity to present statements relating to agenda items, with or without the opportunity to present them orally. Those wishing to address the Commission must register at the door and be recognized by the Chair. Time permitting; each presentation will be given approximately five minutes. It is probable that each presentation will be limited to one person per organization.

Action taken as a result of public comment will be limited to directing staff to study or re-schedule the matter for further consideration at a later time.

No requests to speak.

F. SUMMARY OF CURRENT EVENTS, MATTERS OF BOARD PROCEDURE, REQUESTS AND ITEMS FOR FUTURE AGENDA

None.

G. TIME AND PLACE OF NEXT MEETING - TBA

H. ADJOURNMENT – absent objection the meeting was adjourned @ 10:52 am

Arizona Outdoor Recreation Coordinating Commission (AORCC) Action Report
Agenda Item #: E2

Title: Consider Approving the Law Enforcement Boating Safety (LEBSF) FY 2012 Distribution of $750,000 to Mohave, La Paz and Yuma Counties
Staff Lead: Doris Pulsifer, Chief of Resources & Public Programs
Date: August 15, 2011

Recommended Motion:
I move that the AORCC recommend that the Arizona State Parks Board approve for FY 2012 the distribution of $750,000 to Mohave, La Paz and Yuma Counties based on historical percentages

Status to Date:
Section 76 of HB 2001, passed in the 7th Special Session and signed by Governor Brewer on 3/18/10 allowed the Parks Board to use monies in the Fund for the operation of state parks as follows: *The appropriation for law enforcement and boating safety fund projects is an estimate representing all monies distributed to this fund, including balance forward, revenue and transfers during fiscal year 2010-2011. These monies are appropriated to the Arizona state parks board for the purposes established in section 5-383, Arizona Revised Statutes. The appropriation shall be adjusted as necessary to reflect actual final receipts credited to the law enforcement and boating safety fund.*

Section 6 of HB 2007, passed in the 7th Special Session and signed by Governor Brewer on 3/18/10, appropriated all funds above $500K for FY 2011 agency operations. The remaining $500K could only be granted to LaPaz and Mohave counties. [please see below].

Sec. 6. Law enforcement and boating safety fund; Arizona state parks board; operating expenditures
Notwithstanding section 5-383, Arizona Revised Statutes:
1. For fiscal year 2010-2011, available monies in the law enforcement and boating safety fund may only be granted to La Paz and Mohave counties.
2. All law enforcement and boating safety fund monies appropriated by the legislature to the Arizona state parks board in fiscal year 2010-2011 above $500,000 are available in fiscal year 2010-2011 for the operation of state parks.

State Parks staff presented a recommendation in open public meeting to the Arizona Outdoor Recreation Coordinating Commission (AORCC) on April 12, 2010 to retain the FY 2010 LEBSF distribution of grants for the purpose of meeting budget reductions while maximizing agency operating dollars, and for FY 2011 to approve the distribution of $500,000 to Mohave and La Paz Counties based on historical percentages. AORCC concurred with the staff recommendation and referred the item to the Board for final action.

On April 21, 2010 the Board met in open public meeting and, upon the staff and

AORCC recommendations, authorized the Executive Director to retain the FY 2010 LEBSF to use for agency operations in FY 2011.

For FY 2012, the Board has one-time legislative authority to use the Fund for agency operations, including all receipts and cash balance forward above $750,000 reserved for pass through grants to La Paz, Mohave and Yuma Counties. The FY 2012 agency operating budget explicitly includes the expenditure of all cash in that fund by the end of FY 2012.

Arizona Revised Statutes §5-383 requires the Board to adopt procedures for the allocation of the monies. Allocation percentages are updated every three years in response to the State Watercraft Survey and salary information provided by the eligible participants. The attached Table summarizes the LEBSF allocation percentages for distribution of funds through 2013.

Time Frame:
If the Board approves the FY 2012 LEBSF allocation percentages for the distribution of funds, State Parks will execute Partnership Agreements and distribute the FY 2012 allocation of $750,000 to La Paz, Mohave and Yuma Counties, immediately following the Board meeting on September 14, 2011.

Staff and Financial Resources:
Staff time approximately 16 hours.

Relation to Strategic Plan:
Partnerships Goal, To build lasting public and private partnerships to promote local economies, good neighbors, recreation, conservation, tourism and establish sustainable funding for the agency; **Objective A**, By continuing and expanding collaboration with federal, tribal, state, and local governments, non-governmental organizations (NGOs), concessionaires and private sector individuals whose objectives or duties are similar to State Parks.

Relevant Past Board Actions:
On June 23, 2011, the Board approved the amended FY 2012 Arizona State Parks Operating Budget of $19,489,900 including full expenditure of all cash & receipts to the LEBSF. The Board also reviewed and considered the FY 2013 budget request to the Governor's office and Legislature. This included staff's recommendation to continue the session law from FY 2012 reserving $750,000 for LEBSF pass-through grants, and the remainder to be used for State Parks operations to keep the park system open for the public.

The Board deferred action on the FY 2013 budget request and called for a special meeting, which is tentatively planned for August 3. The Board is considering a more comprehensive budget request, asking for more money for operations and development and deferred maintenance. Funding sources will also have to be identified to cover the increased costs. All agency FY 2013 budget requests are due to the Governor's Office and the Joint Legislative Budget Committee by September 1, and the legislature will begin working on the FY 2013 state budget when their session convenes in January 2012.

Attachments:
Table of LEBSF Allocation Percentages

AORCC Members	Aye	Nay	Absent	Abstain	Comments
Jeffrey Bell	☐	☐	☐	☐	
Devin Rankin	☐	☐	☐	☐	
Margaret L. Nyberg	☐	☐	☐	☐	
William Schwind	☐	☐	☐	☐	
Jeffrey Spellman	☐	☐	☐	☐	
Larry Voyles	☐	☐	☐	☐	
Renee Bahl	☐	☐	☐	☐	

Approve ☐ Deny ☐ Amend ☐

Amend as follows:

AORCC Questions/Comments:

FY 2012 LAW ENFORCEMENT AND BOATING SAFETY FUND (LEBSF) ALLOCATION

County	Percent Allocation per 2009 Watercraft Survey	Percent Relative to Total for 3 Counties		Percent X $750,000=Allocation
La Paz	17.872%	17.872%/56.721=	31.509%	$236,318
Mohave	30.224%	30.224/56.721=	53.285%	$399,638
Yuma	8.625%	8.625/56.721=	15.206%	$114,045
				$750,000

Arizona Outdoor Recreation Coordinating Commission (AORCC) Action Report
Agenda Item #: E3

Title: Consider Letter of Support for Fully Funding State side Land and Water Conservation Fund
Staff Lead: Jay Ziemann, Assistant Director for Partnerships
Date: August 15, 2011

Recommended Motion:
I move that the AORCC the endorse of the attached letter the Secretary of the Interior Ken Salazar, opposing the redirection of the State side Land and Water Conservation Funds (LWCF) for the funding of the America's Great Outdoors Initiative (AGO).

Status to Date:
On September 3, 1964, President Lyndon Johnson signed the Land and Water Conservation Fund Act. The Act has two components. The Federal side is for the acquisition of lands for public recreation to be maintained in perpetuity. The State side portion is to be used for the acquisition and development of outdoor recreation resources. Prior to receiving LWCF funding, the states must complete a comprehensive outdoor recreation plan (SCORP).

After 1968, revenues to the LWCF came from outer continental shelf mineral leasing. By Federal Fiscal Year 1978 funding was increased to $900 million per year. Unfortunately, LWCF funding, and especially the state side half, has been sporadic over the years.

President Obama's administration is now seeking funding for their America's Great Outdoors (AGO) Initiative. The Administration is advocating that a new national competitive grant program would be funded by the redirection of 60% of the state side appropriation of the LWCF. Indications are that the National Park Service would administer this new grant program instead of having each state and their State Liaison Officer review and select the projects based on our open project selection process, which is based upon priorities of each state's Comprehensive Outdoor Recreation Plans.

A stateside coalition consisting of the National Association of State Liaison Officers (NASORLO), the National Recreation and Park Association, (NRPA), the National Association of State Park Directors (NASPD), the National Association of Recreation Resource Planners (NARRP), and the National Governors Association (NGA), along with others representing state interests oppose the AGO's national competitive grant program as it is viewed as federalizing a state program.

Additionally, these groups are seeking Congressional action for equity in the distribution of funds in the LWCF between the federal and state side shares because the local and state outdoor recreational needs far exceed current funding levels and state and local projects encourage activity and healthy lifestyles near the population. In Arizona, the loss of the LWCF, coupled with the loss of the State Parks Heritage Fund would be very detrimental to local recreation funding.

Arizona Outdoor Recreation Coordinating Commission (AORCC) Action Report
Agenda Item #: E3

Time Frame:
(Insert the timeline if this is approved- when the action goes into effect, or what are the next steps).

Staff and Financial Resources:
None

Relation to Strategic Plan:
Partnerships Goal, To build lasting public and private partnerships to promote local economies, good neighbors, recreation, conservation, tourism and establish sustainable funding for the agency; **Objective A**, By continuing and expanding collaboration with federal, tribal, state, and local governments, non-governmental organizations (NGOs), concessionaires and private sector individuals whose objectives or duties are similar to State Parks.

Relevant Past Board Actions:
None

Attachments:
Draft letter to Secretary of the Interior, Ken Salazar
Report of LWCF Annual Apportionments

AORCC Members	Aye	Nay	Absent	Abstain	Comments
Jeffrey Bell	☐	☐	☐	☐	
Devin Rankin	☐	☐	☐	☐	
Margaret L. Nyberg	☐	☐	☐	☐	
William Schwind	☐	☐	☐	☐	
Jeffrey Spellman	☐	☐	☐	☐	
Larry Voyles	☐	☐	☐	☐	
Renee Bahl	☐	☐	☐	☐	

Approve ☐ Deny ☐ Amend ☐

Amend as follows:

AORCC Questions/Comments:

Arizona Outdoor Recreation Coordinating Commission (AORCC) Action Report
Agenda Item #: E3

"Managing and conserving natural, cultural, and recreational resources"

Arizona State Parks®

August 3, 2011

The Honorable Ken Salazar
Secretary of the Interior
1849 C Street, N.W.
Washington D.C. 20240

Arizona State Parks
1300 W. Washington
Phoenix, AZ 85007

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(520 & 928) area codes

General Fax:
602.542.4180

Director's Office Fax:
602.542.4188

Re: America's Great Outdoors Initiative/Stateside Land and Water Conservation Fund

Dear Secretary Salazar:

On behalf of the Arizona State Parks Board, I would like to thank you for the opportunity you extended to State Parks staff to meet with your leadership to discuss future collaborative efforts with the State of Arizona in support of America's Great Outdoors Initiative (AGO). I believe the purpose and intent of AGO is admirable and one in which we can all work together and support well into the future. The State of Arizona, in cooperation with your leadership has identified three projects in Arizona that I understand the Department of the Interior may intend to fund over the next 18 months: *The World Capital of Trails in Wickenberg, Arizona; Lake Havasu National Bluewater Trail System in Lake Havasu; and the Rio Salado River Pathways Program in Phoenix.* These are all outstanding projects and provide valuable opportunities to all generations of Arizonans to enjoy the outdoors and other benefits this great state provides.

Based on the discussion with your staff regarding the funding of AGO, it was our understanding that the AGO would receive additional federal funding to accomplish these and other efforts around the country. Based on recent communications, however, we now understand that the Department of the Interior's approach is to re-direct 60% of the stateside Land and Water Conservation Funding (LWCF) to fund AGO projects. I must be frank; this approach is simply unacceptable to the Arizona State Parks Board.

LWCF was authorized as a program to re-invest assets from oil revenue into outdoor recreation areas and facilities thereby creating perpetual assets for the local communities, state and nation. The national priorities identified in 1965, again in 1980 and more recently in 2010 continue to identify needs within communities and the state for additional outdoor recreation areas and facilities. The program was designed to emphasize development of close-to-home recreation and 60% of the assets of the program were earmarked for state and local use. Arizona's current plan identifies outdoor recreation issues of statewide importance based upon input from the public and local governments. Arizona's top two needs as identified in our State Comprehensive Outdoor Recreation Plan (SCORP) are to maintain and renovate existing outdoor recreation facilities.

Arizona received over $20 million of stateside LWCF grant *requests* over the past two fiscal years, but stateside LWCF was only able to fund 3% of requests. Arizona cannot support the diversion of these highly demanded projects to go to federally-selected projects.

As the National Governors Association articulated in Policy Resolution NR-14, the governors recommended that Congress fully fund the stateside portion of the LWCF for the acquisition and development of public outdoor recreation areas and facilities in a manner that provides a balanced and equitable appropriation of stateside funding in comparison to the federal side of the program while honoring the original intent and spirit of LWCF. Governors also encouraged Congress to authorize changes to the stateside LWCF to allow for a match of 75 percent federal/25 percent state as a means of increasing opportunity to use these funds in small communities and support increased private investment in recreation facilities on public lands.

We strongly oppose diverting funding from locally developed and supported priorities in order to support federally-selected priorities under AGO. The redirection of stateside LWCF funding not only ignores local community priorities, but will lead to the erosion of public and local government support for LWCF and ultimately, and unintentionally, toward diminishing Congressional support for this valuable program. Public and local community support for LWCF is critical to its long-term success. I urge you to support local use of these funds as was originally intended and not divert heavily-demanded stateside LWCF for nationally-chosen priorities that Arizona and the majority of other states may never see.

In these difficult and uncertain economic times, we should be working together to identify ways in which these programs can complement our mutual objectives and priorities, not unnecessarily create situations where we would be in direct competition.

If you would like to further discuss this matter, please contact Renée Bahl, Executive Director, at (602) 542-4174 or rbahl@azstateparks.gov.

Sincerely,

Tracey Westerhausen

Tracey Westerhausen, Chair
Arizona State Parks Board

cc: The Honorable Janice K. Brewer, Governor of Arizona
The Honorable John McCain, Senator of Arizona
The Honorable Jon Kyl, Senator of Arizona
The Honorable Jeff Flake, Arizona District 6 Representative
The Honorable Trent Franks, Arizona District 2 Representative
The Honorable Gabrielle Giffords, Arizona District 8 Representative
The Honorable Paul Gosar, Arizona District 1 Representative
The Honorable Raul Grijalva, Arizona District 7 Representative
The Honorable Ed Pastor, Arizona District 4 Representative
The Honorable Ben Quayle, Arizona District 3 Representative
The Honorable David Schweikert, Arizona District 5 Representative
Walter D. Armer, Jr., Vice-Chairman, Arizona State Parks Board
Reese Woodling, Arizona State Parks Board
William Scalzo, Arizona State Parks Board
Alan Everett, Arizona State Parks Board
Larry Landry, Arizona State Parks Board
Maria Baier, Arizona State Parks Board
Jeffrey Bell, Chair, Arizona Outdoor Recreation Coordinating Commission
Renée Bahl, Executive Director, Arizona State Parks

Arizona's LWCF Apportionment by Year

Federal Fiscal Year	Total Apportionment	Federal Acquisition Program	Total State Side Apportionment	Arizona's Apportionment
1965	$15,930,000	$5,555,000	$10,375,000	$131,045
1966	$123,560,000	$39,183,000	$84,377,000	$1,052,875
1967	$107,440,000	$41,737,000	$65,703,000	$721,398
1968	$116,416,000	$51,416,000	$65,000,000	$838,041
1969	$161,725,000	$116,725,000	$45,000,000	$582,626
1970	$127,900,000	$65,900,000	$62,000,000	$801,114
1971	$353,241,000	$167,841,000	$185,400,000	$1,974,293
1972	$356,669,000	$101,669,000	$255,000,000	$3,297,150
1973	$178,957,000	$112,957,000	$66,000,000	$2,337,039
1974	$186,800,000	$5,000,000	$181,800,000	$696,557
1975	$301,092,000	$121,092,000	$180,000,000	$2,313,900
1976	$354,753,000	$134,953,000	$219,800,000	$2,825,529
1977	$205,996,000	$30,480,000	$175,516,000	$2,369,539
1978	$661,667,000	$355,597,000	$306,070,000	$4,026,227
1979	$859,956,000	$490,166,000	$369,790,000	$4,859,702
1980	$659,988,000	$359,988,000	$300,000,000	$4,033,803
1981	$375,546,000	$201,801,000	$173,745,000	$2,745,899
1982	$107,282,000	$107,282,000	$0	$0
1983	$278,005,000	$167,386,000	$110,619,000	$1,654,921
1984	$285,512,000	$212,593,000	$72,919,000	$1,090,888
1985	$284,966,000	$213,113,000	$71,853,000	$1,116,080
1986	$252,237,900	$206,245,000	$45,992,900	$700,642
1987	$149,583,000	$116,883,000	$32,700,000	$498,035
1988	$169,693,000	$153,126,000	$16,567,000	$252,511
1989	$206,233,000	$189,533,000	$16,700,000	$262,074
1990	$231,481,000	$214,980,000	$16,501,000	$245,865
1991	$341,672,000	$311,829,000	$29,843,000	$481,420
1992	$317,392,000	$297,644,000	$19,748,000	$306,525
1993	$283,652,000	$258,865,000	$24,787,000	$400,000
1994	$255,551,000	$230,801,000	$24,750,000	$416,812
1995	$216,795,000	$192,092,000	$24,703,000	$418,852
1996	$138,073,000	$138,073,000	$0	$0
1997	$159,379,000	$159,379,000	$0	$0
1998	$270,098,000	$270,098,000	$0	$0
1999	$328,216,000	$328,216,000	$0	$0
2000	$444,892,000	$406,892,000	$38,000,000	$696,484
2001	$543,942,000	$454,942,000	$89,000,000	$1,637,450
2002	$563,896,000	$423,896,000	$140,000,000	$2,637,236
2003	$407,383,000	$313,000,000	$94,383,000	$1,760,000
2004	$268,360,000	$177,000,000	$91,360,000	$1,755,514
2005	$255,735,784	$166,000,000	$89,735,784	$1,724,232
2006	$148,757,976	$120,763,000	$27,994,976	$535,156
2007	$150,037,976	$122,043,000	$27,994,976	$535,156
2008	$145,837,400	$122,704,000	$23,133,400	$441,526
2009	160,580,947	133,420,000	$27,160,947	$518,919
2010			$38,082,618	$729,417
2011				$744,061
Totals	$12,512,879,983	$8,610,858,000	$3,940,104,601	$57,166,513